Supreme Court, U.S.
FILED
JUL 3 1987
JOSEPH F. SPANIOL, JR.
CLERK

No. 87-38

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

GRANADA ELECTRONICS, INC.,

Petitioner,

vs.

ORIGINAL APPALACHIAN ARTWORKS, INC.,
a Corporation of the State of Georgia,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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QUESTIONS PRESENTED

1. Whether there can be any "confusion," as defined in the Lanham Act, as to the source of products, when the products have been manufactured under license from the trademark owner in strict compliance with its specifications?

2. Whether the function of a trademark is to identify the "source, origin or sponsorship" of the goods marked or to ensure that the goods are of any particular quality?

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No. _____

IN THE

SUPREME COURT OF THE UNITED STATES

GRANADA ELECTRONICS, INC.,

Petitioner,

v.

ORIGINAL APPALACHIAN ARTWORKS, INC.,
A Corporation of the State of Georgia,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Granada Electronics, Inc. respectfully prays that a writ of certiorari issue to review the order and opinion of the United States Court of Appeals for the Second Circuit entered in this proceeding on April 7, 1987.

That opinion affirmed a judgment in favor of respondent after a non-jury trial in this trademark action upon a finding of trademark infringement by petitioner.

OPINIONS BELOW

The opinion of the Court of Appeals from which this appeal is taken appears in the Appendix to this petition at A1. The opinion rendered by the District Court for the Southern District of New York (William C. Conner, United States District Judge) appears at A40.

JURISDICTION

The judgment and opinion of the Court of Appeals was entered on April _, 1986. The jurisdiction of this Court is invoked under 28 U.S.C. section 1254(1).

STATUTES INVOLVED

Section 32 of the Lanham Act, 15 U.S.C. §1114(1) provides as follows:

> "Any person who shall, without the consent of the registrant
>
> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or
>
> (b) reproduce, counterfeit, copy or colorably imitate a registered mark and apply such reproduction, counterfeit, copy or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be

used in commerce upon or in connection with the sale, offering for sale, distribution or advertising of goods or services on or in connection with which such use is likely to cause confusion or to cause mistake or to deceive shall be liable in a civil action by the registrant for the remedies hereinafter provided."

The Tariff Act of 1930, 19 U.S.C. 1526 provides in pertinent part:

"...it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of Sections 81-109 of Title 15 and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in Section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry."

STATEMENT OF THE CASE

This action arose from petitioner's importation and distribution in the United States of Cabbage Patch Kids ("CPK") dolls manufactured in Spain by Jesmar, S.A. ("Jesmar") under license by respondent, Original Appalachian Artworks, Inc. ("OAA") the world-wide registered owner of the CPK trademark.

Petitioner Granada Electronics, Inc. ("Granada") is an importer and trader of consumer merchandise which it buys and sells at wholesale. It has been in this business for more than 25 years, trading frequently in overseas markets.

OAA itself engages in the manufacture and sale of hand-sewn, soft-

sculpture dolls under its CPK trademark. These dolls play no part in this case. This case concerns OAA's licensing activities world-wide in the production and sale of vinyl CPK dolls by licensees.

OAA engaged Schlaifer-Nance ("Schlaifer") as its world-wide licensing agent for the purpose of licensing others to produce and sell the vinyl version of the dolls. The vinyl dolls produced by the licensees world-wide are in all instances identical. It appears that in all instances the licensor requires that the licensee package the licensed product in boxes with printed material on the exterior thereof in the native language of the licensee's place of business. Additionally, all dolls sold world-wide under license are sold with "birth certificates" and "adoption papers", and it appears that

the licensee in each instance is required to have this material printed in the language predominantly spoken in the country where the licensee does business. In the United States the licensee for the production and sale of the vinyl dolls is Coleco. The record identifies licensees in France, Germany, Sweden; there are others. Some of these other licensees produce and sell vinyl dolls in countries where the native language is English.

On April 13, 1984, Schlaifer licensed Jesmar to manufacture and distribute the vinyl doll in Spain, the Canary Islands, Andorra and Ceuta Melilla. Like other foreign licensees, Jesmar agreed not to sell or authorize any sale of the licensed products outside its licensed territory except with the permission of Schlaifer. Either in

anticipation of likelihood that there would be many instances of permitted sales beyond the licensed territory as provided in the contract, or because OAA's world-wide licensing scheme is hopelessly confused, OAA caused its trademark to be recorded with the United States Customs Service and listed Jesmar as a producer whose CPK dolls could "pass through" United States Customs. On all panels of the box except for the bottom, OAA's United States trademark is printed in conformity with the provisions of 15 U.S.C. § 1111, indicating that OAA anticipated the sale of these dolls in the United States. There is nothing in the record below which would indicate that the sale by Jesmar for distribution of the dolls in question outside of Spain was other than entirely in accordance with permission as provided in the contract between Schlaifer

and Jesmar. However, the CPK dolls manufactured by Jesmar were produced with packaging on all panels printed in the Spanish language (except for the designation "Cabbage Patch Kids" and the trademark notice provided for by 15 U.S.C. §1111). In addition, the Jesmar dolls contained birth certificates and adoption papers printed completely in Spanish. The mailing address to which the adoption papers are to be sent is in Spain. It is undisputed that the Jesmar dolls and packaging, as well as the package inserts, were all expressly approved by OAA for production and sale.

In or about mid-1985, petitioner attempted to purchase CPK Coleco dolls in the United States, but found them unavailable at any price and from any source, including Coleco itself. In or about the summer of 1985, petitioner

was offered CPK vinyl dolls by the Sherwood Agency ("Sherwood"), a United Kingdom merchant that regularly supplied petitioner with various classes of imported merchandise. Before placing its order with Sherwood, Petitioner, in good faith, contacted its customs broker and inquired as to the propriety of importing CPK vinyl dolls produced by Jesmar. It was only after petitioner had been informed that, as a matter of public (Customs Service) record, OAA had consented to the importation of CPK dolls manufactured by Jesmar and had been assured of the genuineness of the product as well as its trademark by an overseas supplier of long standing, in which petitioner had come to repose its confidence, that it placed an order for CPK Jesmar dolls with Sherwood. It is undisputed that, for a considerable period before petitioner placed its

order with Sherwood, vinyl CPK dolls with foreign language "papers" in many different languages were offered for sale by such well-known retailers as J.C. Penney, Hess, Jordan Marsh, Toys-R-Us and Macy's. Indeed, the importation and sale of vinyl CPK dolls with foreign language papers was so pervasive that on December 26, 1984, approximately one year prior to the commencement of the instant action, Schlaifer addressed a letter forwarded by international courier to at least 10 foreign licensees suspected of transshipping vinyl CPK dolls, threatening the institution of suit for selling outside its "licensed territory" in violation of its respective contract.

It should be noted that, as manifested in the record below, OAA never established that petitioner had

prior knowledge that the dolls being imported from Spain contained material printed in Spanish on the packaging and included Spanish language papers. Moreover, the record is devoid of any indication that petitioner knew or had reason to know that OAA would object to the sale of dolls bearing its trademark (for which it presumably earned royalties) in whatever language was employed for the printed material. Thus, since respondent failed to terminate any license for transshipping the dolls or require labelling on the packaging that would indicate that the goods were intended for a specific territory, and expressly authorized the Customs Service to permit entry of the goods, respondent encouraged the transshipment of vinyl CPK dolls by its foreign licensees for importation and sale in the United States, especially by

requiring foreign licensees to include the material called for by 15 U.S.C. §1111.

REASONS FOR GRANTING THE WRIT

This case involves the question whether goods produced under license granted by the sole owner of a world-wide trademark can be considered less than genuine for purposes of trademark law because they differ from goods produced under license from the same licensor by a different producer. The question is one of great practical importance not only to all United States merchants trading in overseas markets but also to the Customs Service, which must administer the laws governing the

importation of trademarked goods.[1]

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1. Viewed from a different perspective, indeed one advanced by respondent below, the subject goods can be legitimately characterized as "gray goods," i.e., goods produced and sold abroad under a particular trademark which are imported into the United States and sold in competition with goods of the owner of United States trademark rights in the identical mark. At present, there exists a conflict between three Circuit Courts as to whether gray goods cases, particularly those challenging the Customs Service's decision not to exclude trademarked merchandise, must in all cases be initiated, after exhausting the appropriate administrative remedies, in the Court of International Trade. See Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, ___ U.S. ___, 106 S.Ct. 791, 88 L.Ed. 2d 769 (1986) (holding that, pursuant to 28 U.S.C. §1581(i)(4), the Court of International Trade has exclusive jurisdiction) and Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986), petition for cert. filed, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757) and Coalition to Preserve the Integrity

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of American Trademarks v. United States, 790 F.2d 903 (D.C. Cir. 1986), cert. granted, 55 U.S.L.W. 3411 (U.S. Dec. 8, 1986) Nos. 86-495, 86-624, 86-625) (both holding that the Court of International Trade does not have exclusive jurisdiction). It is significant that the policy considerations implicit in the Customs Courts Act of 1980 support the holding of Vivitar since it "expanded and clarified the jurisdiction of [the Court of International Trade] to create 'a comprehensive system for judicial review of civil actions arising out of import transactions and Federal statutes affecting international trade.'" United States v. Mizrahie, 606 F.Supp. 703, 706 (Ct. Int'l Trade 1985) (quoting statement of President Carter, 16 Weekly Comp. of Pres. Doc. 2183 [Oct. 11, 1980]. While in the instant case there was no challenge, prior to the commencement of suit, of Customs's decision to permit the entry of what respondent characterizes as goods which "confuse the public," respondent was, arguably, acting in bad faith in commencing a trademark action. Knowing the Vivitar rule that Customs is not required to provide for automatic exclusion of goods except as set forth in its regulations, respondent commenced this suit with the intention of instituting a proceeding before the

Specifically, the Second Circuit has held in this case that goods produced under license granted by the holder of the trademark are not genuine because consumers may be disappointed with the product.

In so ruling, the Second Circuit has redefined the meaning of "confusion" under sections 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114(1) and

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United States International Trade Commission seeking a directive requiring Customs to exclude the subject dolls. This intention is manifested by the fact that, sometime subsequent to the commencement of this action, Respondent brought such a proceeding, I.T.C. Case #337-TA-231, without advising Petitioner of its initiation or pendency.

1125(a), respectively, replacing the objective test of "source, origin and sponsorship" with a subjective one of consumer satisfaction. The Second Circuit's interpretation is unwarranted by statute or prior case law and conflicts with the Ninth Circuit's decision in NEC v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir. 1987), which holds that a wholly owned subsidiary of the sole owner world-wide of a trademark has no cause of action for trademark infringement under of the Lanham Act against a third party who imported the parent's genuine trademarked goods from Japan and sold them in the United States.

The Second Circuit's interpretation of the phrase "likely to cause confusion..." contained in section 32 of the Lanham Act, 15 U.S.C. §1114 (1), has

major commercial significance. American consumers spend millions of dollars on foreign-manufactured prod-ucts licensed under United States trademarks, including cameras, electronic equipment and toys, that are available at discount prices as a result of importation. Domestic wholesalers, such as Petitioner, relying on the genuineness of goods produced pursuant to a United States registered trademark, have established extensive business enterprises based on the importation of these goods.

For over 100 years, businesses have been relying on the legitimacy of registered trademarks to purchase authorized foreign-manufactured goods at costs below the artificially high prices fixed by trademark owners in the United States. The Second Circuit's decision, if upheld, will effect an anomalous

result, not intended by Congress in passing and amending the Lanham Act, that will seriously disrupt established commercial practice. Moreover, the conflict between the circuit courts will effectively permit importation of the subject dolls in California, where they would be considered genuine, while condemning their importation in New York, where they would not. In consideration of the wide range of commercial activities that will be affected by the Second Circuit's decision and the inevitable confusion it will cause, a resolution of the issues raised is a matter of importance to the business community and one that warrants this Court's review.

A. Since the Word "Source," Within the Meaning of the Trademark Law, Refers to the Trademark Owner, There Can Be No Confusion as to Source Where Goods Are Manufactured Under License in Accordance with the Trademark Owner's Specifications.

The function of a trademark is to identify the owner of the trademark as the source or sponsor of the goods marked and to identify the goods as the authentic product of the trademark owner. Slip opinion at 2285 (Cardamone, J., concurring in separate opinion). This concept is expressed well in Schroeder v. Lotito, 577 F.Supp. 708 (D.R.I. 1983), aff'd, 747 F.2d 801 (1st Cir. 1984) (per curiam), where the Court stated:

> The essence of [a trademark] offense is passing off on one's goods or services as being those of another [citing cases]. Thus is an action for trademark infringement in its purest form, the crucial question is whether a consumer

> would be likely to experience confusion with respect to the identity of goods or services because of the use of similar marks by opposing parties [citing cases].

Id. at 718. This function is consistent with the underlying significance of the mark, i.e., that its owner stakes his reputation on the goods.

In the instant case, the Second Circuit upholds the District Court's ruling that petitioner infringed OAA's trademark on the basis that, since the subject goods were not "authorized" for sale in the United States and contained Spanish language "adoption papers," they were "materially different" from the Coleco dolls and, therefore, actionable under section 32 as "likely to cause confusion." While the Second Circuit purports to hold that this material difference confuses con-

sumers as to the source of the subject goods, it is clear that the Court's use of the word "source" includes not only the trademark owner but Coleco, a licensee, as well, a holding clearly contrary to the Ninth Circuit's interpretation in NEC Electronics v. CAL Circuit Abco, 801 F.2d 1506 (9th Cir. 1987), and to the central purpose of the mark, which is to identify the "quality controller."

In support of its affirmance, the Court of Appeals relies on the statutory purpose of section 32, which it characterizes as intending to "prevent consumer confusion of similar goods." Slip op. at 2282. Petitioner submits that since section 32 seeks to prevent damage to a trademark owner's goodwill as a result of public confusion as to the sponsorship of a particular good, the Second Circuit's interpretation of

the language contained in section 32 not only conflicts with that of the Ninth Circuit but also brings a novel definition to the word "confusion" within the context of trademark law that is unwarranted by the statute and leads to an anomalous result.

As evidenced by its failure to cite or refer to the language of section 32 or its legislative history, the Second Circuit's characterization of the statutory purpose of section 32 is without support except for its prior decision in Syntex Laboratories, Inc. v. Norwich Pharmaceutical Co., 437 F.2d 566 (2d Cir. 1971). In Syntex, a Second Circuit panel ruled that where "product confusion" would have dire consequences on public health, looking to such confusion in addition to source or origin confusion was in accord with the pur-

poses of the Lanham Act.

In reaching this conclusion, the Syntex Court stated that in amending section 32 "Congress eliminated the ... qualifying language [of source or origin], thereby evincing a clear purpose to outlaw the use of trademarks which are likely to cause confusion ... not merely of purchasers nor simply as to source of origin." Id. at 568. While the legislative history of the amendment is not instructive, we contend that Syntex is an aberration which departs from prior case law decided after section 32 was amended and that, since Syntex involved two different trademarks, its conclusion that confusion was not limited to source of origin was not necessary to its holding and was, therefore, dicta.

Subsequent to the amendment of section 32, the Second Circuit in Franchised Stores of New York, Inc. v. Winter, 394 F.2d 664 (2d Cir. 1968), ruled that a cause of action for trademark infringement exists where "an individual uses a trademark (1) without consent, (2) in connection with the sale of goods, (3) where such use is likely to cause confusion or to deceive purchasers as to the source or origin of the goods." Id. at 668. See also Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F.Supp. 1525 (S.D.N.Y. 1986). The "confusion test" was, in fact explained in an earlier Second Circuit opinion as requiring a plaintiff to establish that the "defendant's goods are likely to be thought to have originated with, or to have been sponsored by the true owner of the mark." Societe Comptoir De L'Industrie v. Alexander's Department

Store, Inc., 229 F.2d 33 (2d Cir. 1962). This interpretation was followed by the Second Circuit in Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200 (2d Cir. 1979), a case decided after Syntex, which held that the concept of confusion in trademark law refers to "the public's belief that the work's owner sponsored or otherwise approved the use of the trademark." Id. at 205. See also Mushroom Makers, Inc. v. R.G. Barry Corp., 580 F.2d 44 (2d Cir. 1978), cert. denied, 439 U.S. 1116, 99 S.Ct. 1022, 59 L.Ed. 75 (1979) (per curiam). The concept is clearly articulated in the well-reasoned opinion of Lasker, J., in Ballet Makers v. United States Shoe Corp., 633 F.Supp. 1928 (S.D.N.Y. 1986), where it was explained that confusion could only exist where the public believes that a product is sponsored by

a mark's owner when in fact it is not. Id. at 1334 (emphasis in original). The proposition that the language of section 32 is limited to the source, origin or sponsorship of the goods is also supported by the Ninth Circuit's decisions in NEC Electronics and Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983), which implicitly reject the Second Circuit's interpretation of Congress's purpose in amending the statute.

Nor is the Second Circuit's opinion justified by this Court's holding in A. Bourjois & Co., Inc. v. Katzel, 260 U.S. 689, 43 S.Ct. 244, 67 L.Ed. 464 (1923), the seminal case which stands for the proposition that a trademark infringement may occur in the sale

of genuine products.[2] In Katzel, the United States purchaser of the United States business, trademarks and goodwill of a French manufacturer of face powder

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2. Notwithstanding the Second Circuit's reliance on Katzel, the case most representative of the equities at issue in the case at bar is Prestonettes, Inc. v. Coty, 264 U.S. 359, 44 S.Ct. 350, 68 L.Ed. 731 (1924), universally cited for the proposition that a purchaser from a duly licensed distributor may ordinarily resell the product under the original trademark without incurring liability for infringement. See slip op. at 2289 (Cardamone, J., concurring in separate opinion); see also Alfred Dunhill, Ltd. v. Interstate Cigar Co. Inc., 499 F.2d 323 (2d Cir. 1974). Thus, it can reasonably be concluded that any confusion pertaining to source, origin or sponsorship would not exist where a "genuine article bearing a true mark is sold." NEC Electronics at 1059 (citing Prestonettes, supra, and Monte Carlo Shirt Inc. v. Daewoo International (AM.) Corp., 707 F.2d 1054 (9th Cir. 1983).

brought suit against a United States competitor that had purchased the same powder from the manufacturer and was selling it in the United States in boxes closely resembling plaintiff's own. This Court enjoined the competing sales over the defendant's objection that the trademark was that of the French manufacturer and, thus, truly reflected the origin of the goods.

The Katzel decision, however, was motivated by considerations not present in the case at bar. First, the Court in Katzel was concerned that if it permitted the defendant distributor to market its goods under the French trademark it would effectively permit the manufacturer, which had sold its United States trademarks, business and goodwill, to evade the consequences of that sale and compete with the buyer by the

simple expedient of reaching an agreement with an intermediary. Second, the United States owner had no corporate connection with the French manufacturer and had no other means of controlling the quality of its product, see, El Greco Leather Products, Inc. v. Shoe World, 806 F.2d 392 (2d Cir. 1986) and cases cited above for the proposition that the trademark holder is entitled to control the quality of the goods that bear his mark. Unless the injunction issued, the holder of the United States trademark would have been forever vulnerable to any decline in the quality of the French product and would not even have been able to protect itself by revoking a license because it had not licensed the French manufacturer in the first place. In the case at bar, Respondent not only licensed Jesmar and presumably retains the power to revoke

its license if dissatisfied with the quality of Jesmar's dolls but also has never impugned the quality of Jesmar's dolls.

By its holding, the Second Circuit has transformed the "confusion test" from one pertaining to the sponsorship of goods into one concerned with the quality of goods. This is clearly not consistent with the purpose of the Lanham Act.

B. The Function of a Trademark Is to Identify the Trademark Owner as The Origin, Source or Sponsor of the Goods, Not to Guarantee That They Are of High Quality or to Invite Speculation as to Whether They Are Fit to Bear the Mark.

Patently, the owner of a trademark may license whomever he pleases to use his mark, subject only to his obligations to prior licensees. The

mark is not an assurance of quality but of the right to control quality, see, El Greco, supra, (holding that goods were not genuine where license to manufacture under mark did not ripen into license to sell under that mark until owner had approved the quality of the goods); compare Sasson Jeans, supra (where owner of mark had forgone right to control quality, goods were genuine because produced under license). See also Ballet Makers, supra, where Judge Lasker said, "the purpose underlying federal trademark law which the 'confusion' standard is designed to effectuate, namely, protecting the public's ability to rely on the trademark as indicative of the source of the goods which in turn is indicative of the goods' quality" (citing In re Polar Music International AB, 714 F.2d 1567, 1571 [Fed.Cir. 1983]). In authorizing a

licensee to use his mark, a trademark owner vouches for the goods; he does not invite speculation as to their quality or their "right" to bear the mark whose use he has authorized. It is his mark; the owner may be circumspect and guard his reputation or he may be promiscuous, but if he is promiscuous he may not simply disavow the license by commencing an action alleging that his trademark has been infringed. See Alfred Dunhill, Ltd. v. Interstate Cigar Co., 499 F.2d 232 (2d Cir. 1974) (trademark owner may not ordinarily complain about goods sold in the United States under his mark whether or not the goods are different from or inferior to those made in this country; Sasson Jeans, supra; and see, Parfums Stern, Inc. v. United States Customs Service, 575 F.Supp. 416 (S.D. Fla. 1983) (single holder of mark world-wide who engages in international

markets may not use the trademark laws to protect himself from undesired competition).

While petitioner does not deny that the Jesmar dolls were different from the Coleco dolls insofar as they contained Spanish-language papers, neither this fact nor the fact that they were not intended for sale in the United States renders Jesmar's dolls ingenuine vis-a-vis the trademark owner, since the dolls were manufactured pursuant to a license issued by the trademark owner and in accordance with the trademark owner's specifications. Indeed, as evidenced by the complaints allegedly received by the Trademark owner in this case, there was no confusion as to the sponsor of the goods, and that is the cause of respondent's alarm. In essence, therefore, the Second Circuit's

decision permits respondent to use the Lanham Act to disavow genuine goods on the basis that the public is disappointed in them. It may well be that respondent is free to establish territorial restrictions on the sale of its goods in international markets. However, to paraphrase the Ninth Circuit in NEC Electronics, the trademark law does not offer respondent a vehicle by which to establish and enforce a worldwide licensing scheme to keep prices and demand for goods artificially high while purporting to control quality.

CONCLUSION

Granada Electronics, Inc.'s petition for a writ of certiorari should be granted.

Dated: New York, New York
July 1, 1987

Respectfully submitted,

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APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

No. 519 -- August Term, 1986

(Argued December 8, 1986
Decided April 7, 1987)

Docket No. 86-7670

Original Appalachian Artworks, Inc.,

Appellee,

v.

Granada Electronics, Inc.,

Appellant.

Before OAKES, CARDAMONE, and WINTER, Circuit Judges.

Appeal from a decision of the United States District Court for the Southern District of New York, William C. Conner, Judge, finding importer and distributor of dolls produced overseas under license with trademark owner and

bearing owner's mark liable for infringement and enjoining further importation of the dolls.

Affirmed. Judge Cardamone concurs in a separate opinion.

Noel W. Hauser, Haas, Greenstein, Hauser, Sims, Cohen & Gerstein, P.C., New York, NY, for Appellant.

Gerard F. Dunne, Wyatt, Gerber, Shoup, Scobey & Badie, New York, NY (Bruce N. Proctor, Eliot S. Gerber, New York, NY; William H. Needle, Atlanta, GA; Stanley F. Birch, Jr., Atlanta, GA, of counsel), for Appellee.

OAKES, Circuit Judge:

This appeal involves a suit by a registered trademark owner in the United States against the importer of so-called "gray goods," here Cabbage Patch Kids dolls, bearing the owner's trademark but manufactured abroad under a restrictive license from the trademark owner. The license restriction defined the territory in which the dolls could be sold, limiting sales essentially to Spain. The Spanish "Kids," although duly bearing the appropriate trademark, nevertheless differ from Kids manufactured in the United States because their "adoption papers" are in Spanish. The United States District Court for the Southern District of New York, William C. Conner, Judge, found that sale of the Spanish dolls in the United States infringed the owner's trademark

and granted a permanent injunction against the importer and distributor of the dolls. Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 640 F. Supp. 928 (S.D.N.Y. 1986). We affirm.

This action was brought by Original Appalachian Artworks, Inc. (OAA), the Georgia maker and licensor of the well-known Cabbage Patch Kids dolls, against Granada Electronics, Inc. (Granada), who imported and distributed Cabbage Patch Kids dolls in the United States. Granada's dolls were made in Spain by Jesmar, S.A. (Jesmar), under a license from OAA (through a licensing agent) which permitted manufacture and distribution of the dolls in Spain, the Canary Islands, Andorra, and Ceuta Melilla. Under the license Jesmar agreed not to make, sell, or authorize

any sale of the licensed products outside its licensed territory and to sell only to those purchasers who would agree not to use or resell the licensed products outside the licensed territory. The boxes containing the Jesmar dolls bear the "Cabbage Patch Kids" trademark displayed in English on all panels of the box except the bottom. Also printed in English are the words "The World Of" preceding the trademark on the rear panel of the box and the name of OAA and its United States address in small print in the copyright notice. The rest of the wording on the box, however, is in Spanish.

OAA makes hand-sewn soft-sculpture Cabbage Patch Kids dolls in Cleveland, Georgia, and markets them through what it calls "adoption centers" located primarily in specialty stores

and finer department stores. Purchasers of the dolls receive "birth certificates" and "adoption papers" to be filled out by the "parent" or owner of the doll, who takes an "oath of adoption." The adoption papers are returned to OAA, and the information is entered into the OAA computer so that on the first anniversary of the adoption the adopting parent receives a "birthday card" from OAA. Judge Conner found that this adoption process is an "important element of the mystique of the [Cabbage Patch Kids] dolls, which has substantially contributed to their enormous popularity and commercial success." 640 F. Supp. at 930.

Through an intermediary licensing agent, OAA also licenses Coleco Industries, Inc., of Hartford, Connecticut, to manufacture, promote,

and distribute Cabbage Patch Kids dolls within the United States. Unlike the OAA dolls, the Coleco dolls are smaller, with vinyl heads. They are mass-produced, packaged in boxes, and sold at a retail price less than half that of the OAA soft-sculpture dolls. Nevertheless, the Coleco dolls are also accompanied by birth certificates and adoption papers and by English-language instructions suggesting the return of completed adoption papers in a pre-addressed envelope to a processing center in the United States. The instructions also permit a purchaser "legally" to change the name of the doll if desired, and the doll's parent gets a suitable-for-framing birth certificate as well as a birthday card on the first birthday of the doll. Coleco, with tremendous sales, has invested millions of dollars in advertising the dolls during

the last three years and had spent approximately $2.9 million in the first two quarters of 1986. The district court found that, indeed, the Cabbage Patch Kids trademark has become famous and associated with Coleco by virtue of its advertising expenditures and television commercials. 640 F. Supp. at 931.

We note that OAA did cause its trademark to be recorded with the United States Customs Service, the regulations of which require the listing "of each foreign person or business entity authorized or licensed to use the trademark and a statement as to the use authorized." 19 C.F.R. § 133.2(c) (1986). Jesmar was listed on the application for recordation by OAA and pursuant thereto the Customs Service sent its agents a letter authorizing Cabbage Patch Kids dolls made by Jesmar to pass

through Customs. Parenthetically it should be noted that this court recently held that the Customs Service as a matter of "enforcement discretion" and by virtue of inherent "administrative difficulties" may authorize the admission of so-called gray market goods. Olympus Corp. v. United States, 792 F.2d 315, 320 (2d Cir. 1986), petition for cert. filed, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757); accord Vivitar Corp. v. United States, 761 F.2d 1552, 1569-70 (Fed. Cir. 1985), cert. denied 106 S. Ct. 791 (1986). But see Coalition to Preserve the Integrity of American Trademarks v. United States, 790 F.2d 903, 916-17 (D.C. Cir. 1986) (customs regulations allowing importation of gray goods inconsistent with statute governing entry of trademarked goods), cert. granted, 55 U.S.L.W. 3411 (U.S. Dec. 8, 1986) (Nos. 86-495,

86-624, 86-625). It is important to point out, however, that although we held in Olympus that Customs could permit entry of gray market goods, we also indicated that this does not limit the reach of protection of section 526 of the Tariff Act of 1922, as reenacted in 1930 and codified at 19 U.S.C. § 1526 (1982). As we stated, "The markholder still has rights under the statute: he may pursue private remedies against the importer under section 526(c), notwithstanding Customs' failure to exclude the goods." Olympus Corp., 792 F.2d at 320. This is precisely such a case, that is, one in which the markholder is pursuing its private remedies against the importer. Cf. Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984) (granting preliminary injunction in private infringement action against the importation of goods genuinely marked

abroad), cited with approval and disapproval in Olympus Corp., 792 F.2d at 319.

DISCUSSION

As Judge Conner noted below, 640 F. Supp. at 932, OAA's registration of the Cabbage Patch Kids trademark is prima facie evidence of its validity and of OAA's exclusive right to use the trademark, the validity of which has not been challenged here. As he also noted, section 32 of the Lanham Trademark Act of 1946, 15 U.S.C. § 1114(1)(a) (1982), prohibits the unauthorized sale of goods bearing a registered trademark where there is a likelihood of confusion, mistake, or deception of purchasers. See, e.g., Syntex Laboratories, Inc. v. Norwich Pharmacal Co., 437 F.2d 566, 568 (2d Cir. 1971); S. Rep. No. 1333, 79th

Cong., 2d Sess. 1, reprinted in 1946 U.S. Code Cong. Serv. Applying this standard, the district court found that Jesmar's Cabbage Patch Kids dolls with their Spanish-language birth certificates, adoption papers, and instructions are materially different from the Coleco dolls with English-language papers. The court also concluded, on the basis of numerous letters from parents and child doll owners or "parents," that the sale in the United States of the Spanish-language dolls with the prominent English-language trademark causes the public to confuse or mistake the Spanish dolls for the Coleco dolls that they expect to be for sale. Together, these findings led the district court to hold Granada's sale of Jesmar dolls in the United States actionable under 15 U.S.C. § 1114(1)(a). 640 F. Supp. at 933 (citing Bell & Howell: Mamiya Co. v.

Masel Supply Co., 719 F.2d 42 (2d Cir. 1983)).

Granada's principal argument is that the central purpose of a trademark is to identify the owner of the trademark as the source of the goods. Accordingly, the argument runs, the role of trademark laws is to prevent an infringer from passing off its goods as being those of another. There would thus be no infringement here because Jesmar's Cabbage Patch Kids dolls bear a genuine trademark that accurately portrays OAA as the originator, or in this case licensor, of the product. To back this line of reasoning, Granada cites three cases in this circuit as standing for the proposition that the unauthorized sale of authorized goods does not give rise to a claim for trademark infringement. Unfortunately for

Granada, however, we do not find that these cases support its interpretation of the Lanham Act.

For example, in DEP Corp. v. Interstate Cigar Co., 622 F.2d 621 (2d Cir. 1980), this court upheld the dismissal of a Lanham Act claim by a United States distributor of an English soap against a gray goods importer because the distributor had no property interest in the trademark. In dicta the court noted that it would be "anomalous" if the sale of genuine goods could support an infringement action. Id. at 622 n.1. But the court also noted that A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923), appeared to the contrary and, in the end, concluded that it need not reach the issue in the case because the plaintiff had no standing to assert trademark infringement.

Granada also cites El Greco Leather Products Co. v. Shoe World Inc., 599 F. Supp. 1380 (E.D.N.Y. 1984), which found that the trademark owner's rights were not infringed by the unauthorized sale in the United States of trademarked shoes even though the shoes had not been accepted or approved for sale by the owner. But this decision was recently reversed in this court on appeal, El Greco Leather Products Co. v. Shoe World Inc., No. 86-7032 (2d Cir. Dec. 3, 1986), on the ground that while the shoes had been manufactured by agreement with the trademark owner, they were not "genuine" for purposes of trademark infringement because the shoes were sold without being inspected by the owner to insure quality. The unauthorized disposition of the shoes without inspection deprived the owner of the right to control the product and could mislead

consumers into believing that the trademark owner had approved the shoes for sale. Thus, in El Greco we concluded that the owner was entitled to relief under section 1114 of the Lanham Act against the seller of goods that bore the owner's mark but had not been inspected, accepted, or authorized for sale in the United States.

The third case cited by Granada, Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F. Supp. 1525 (S.D.N.Y. 1986), which involved unauthorized sales in the United States of surplus blue jeans manufactured overseas under license, is similarly unsupportive. In Sasson Jeans, the court recognized that the heart of the Lanham Act claim was potential confusion by the consumer as to the origin or source of the goods. 632 F. Supp. at 1527 (citing

Standard & Poor's Corp. v. Commodity Exchange, Inc., 683 F.2d 704, 708 (2d Cir. 1982)). The court ruled that there was no trademark infringement because the jeans were "genuine," that is, their production was authorized by contract, they were labeled with the trademark with the intent that they be sold in the United States, and they were sufficiently similar that they could not give rise to the confusion section 1114 was intended to prevent. See Sasson Jeans, 632 F. Supp. at 1528-29; see also Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054, 1058 (9th Cir. 1983) (surplus shirts were "the genuine product, planned and sponsored by Monte Carlo and produced for it on contract for future sale"); Diamond Supply Co. v. Prudential Paper Products Co., 589 F. Supp. 470, 475 (S.D.N.Y. 1984) (paper

products were produced under contract and "identical or qualitatively equivalent"); Ballet Makers, Inc. v. United States Shoe Corp., 633 F. Supp. 1328, 1334-35 (S.D.N.Y. 1986) (subsequent licensee's use of trademark does not infringe prior licensee's rights when goods are "genuine" and owner approved both goods for U.S. distribution).

But as OAA notes and the district court concluded, the present case is distinguishable from the above cases because Jesmar's dolls were not intended to be sold in the United States and, most importantly, were materially different from the Coleco Cabbage Patch Kids dolls sold in the United States. There is a very real difference in the product itself -- the foreign language adoption papers and birth certificate,

coupled with the United States fulfillment houses' inability or unwillingness to process Jesmar's adoption papers or mail adoption certificates and birthday cards to Jesmar doll owners, and the concomitant inability of consumers to "adopt" the dolls. It is this difference that creates the confusion over the source of the product and results in a loss of OAA's and Coleco's good will. Thus, even though the goods do bear OAA's trademark and were manufactured under license with OAA, they are not "genuine" goods because they differ from the Coleco dolls and were not authorized for sale in the United States. This case is therefore closer to Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171-74 (S.D.N.Y. 1984), in which Judge Leval rejected the principle that a trademark lawfully affixed in one country carried the mark lawfully

wherever it went and found that gray good Mamiya cameras imported into the United States in violation of a Customs Service exclusion order infringed upon the American distributor's trademark. See also Ballet Makers, 633 F. Supp. at 1334 (distinguishing Osawa and A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923) from cases in which the trademark owner had authorized the goods for U.S. distribution). As in Osawa, OAA's domestic good will is being damaged by consumer confusion caused by the importation of the Jesmar dolls.

Admittedly, this case is different from Osawa because it is OAA that owns and controls the trademark on Jesmar Cabbage Patch Kids dolls. Citing Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416, 419-20 (S.D. Fla. 1983), Granada argues

accordingly that there can be no infringement here because OAA cannot be damaged by sales of its own goods. Although this argument has some force in cases where the imported goods are identical to the domestic goods and are intended for sale in the United States, as in Sasson Jeans or Monte Carlo Shirt, for example, in a case such as this where the goods are confusingly different, the argument ignores the fact that section 1114 was intended to prevent any consumer confusion over similar goods. In light of this statutory purpose, the fact that a single entity owns the trademark worldwide is not dispositive.

Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42, 45-46 (2d Cir. 1983), another gray goods case, is also distinguishable from the present

case because it ruled only that a preliminary injunction should be denied when there was an inadequate showing of irreparable injury due to confusion and less drastic interim remedies could be adopted. Here there is a more than adequate showing of confusion over the source of the Cabbage Patch Kids dolls and sufficient evidence of damage to OAA's good will to support the permanent injunction. Cf. Premier Dental Products Co. v. Darby Dental Supply Co., 794 F.2d 850, 859 (3d Cir. 1986) (finding irreparable damage to good will even though gray good was identical to goods sold by trademark owner), cert. denied, 107 S. Ct. 436 (1986).

Granada argues further that OAA consented to the importation of Jesmar dolls. This contention is meritless. Although OAA's filing of the

names of its licensed producers pursuant to Customs regulations, 19 C.F.R. § 133.2 (1986), did allow the goods to pass through Customs, this does not extinguish OAA's rights to claim infringement or seek exclusion, as we have said, in a private suit in federal court. See Olympus Corp. v. United States, 792 F.2d at 320; Vivitar Corp. v. United States, 761 F.2d at 1570. The recordation of the trademark and its concomitant application listing Jesmar as a licensee simply operates to ease Customs' administrative chores, not as authorization to import.

Granada also argues that the court erred in dismissing its antitrust counterclaims. Although Granada recognizes that under Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977), territorial restrictions on

product resale do not amount to a per se violation of the Sherman Act, see Olympus Corp., 792 F.2d at 319-20, it nonetheless makes the vague allegation that the "wide disparity in price" here and abroad and the shortgage of Coleco's Cabbage Patch Kids dolls in the United States are suggestive of an antitrust violation. The district court, however, correctly dismissed this counterclaim on the ground that Granada had alleged no antitrust injury that would give it standing to challenge OAA's acts. Indeed, the court found, and we agree, that gray goods importers such as Granada would have benefited from any anticompetitive conduct. Cf. W. Goebel Porzellanfabrik v. Action Industries, Inc., 589 F. Supp. 763, 766 (S.D.N.Y. 1984) (antitrust counterclaim to gray good copyright infringement suit dismissed because importer would have

benefited from high domestic prices). Finally, any claim by Granada that the infringement suit itself is an antitrust violation fails because there is no evidence that the suit was brought in bad faith, to harass, or in any way such that it would not be immune from antitrust strictures under the Noerr-Pennington doctrine. See id. at 767.

Granada's arguments regarding damages are premature and can be heard at the forthcoming damages hearing.

Judgment affirmed.

CARDAMONE, Circuit Judge, Concurring:

The majority states that the imported dolls were not intended to be sold in the United States and were "different" from those of the mark's owner because the adoption papers and birth certificates were in Spanish. It is this difference, the majority continues, that creates confusion over the source of the product and constitutes the Lanham Act violation. I also believe that the importation of the Spanish produced Cabbage Patch dolls infringes the owner's trademark and should be permanently enjoined. While I agree with the majority that there is "confusion over the source of the product," I respectfully reach this conclusion for somewhat different reasons.

I

The essential element of an action under § 32 of the Lanham Act, 15 U.S.C. § 1114 (1982), is a showing of the likelihood of consumer confusion as to source of origin. See, e.g., Church of Scientology Int'l v. The Elmira Mission of the Church of Scientology, 794 F.2d 38, 43 (2d Cir. 1986); Miss Universe, Inc. v. Patricelli, 753 F.2d 235, 237 (2d Cir. 1985); Berlitz Schools of Languages, Inc. v. Everest House, 619 F.2d 211, 215 (2d Cir. 1980); McGregor-Doniger Inc. v. Drizzle Inc., 599 F.2d 1126, 1130 (2d Cir. 1979); Mushroom Makers, Inc. v. R.G. Barry Corp., 580 F.2d 44, 47 (2d Cir. 1978), cert. denied, 439 U.S. 1116 (1979) (per curiam). Because parallel goods are generally considered to be the "genuine" product of the foreign trademark owner,

see, e.g., A. Bourgois & Co. v. Katzel, 260 U.S. 689, 691-92 (1923); 3A R. Callmann Unfair Competition, Trademarks and Monopolies § 21.17, at 74 (L. Altman 4th ed. 1983), the traditional Lanham Act consumer confusion test becomes difficult to apply. Lipner, The Legality of Parallel Imports: Trademark, Antitrust, or Equity?, 19 Tex. Int'l L.J. 553, 568 (1984). Hence, to determine whether the importation of "genuine" Cabbage Patch dolls creates a likelihood of confusion as to their "source", it is necessary to examine the functions and principles of trademark law.

A. Trade Identity Theory

Under the trade identity theory of trademark law, the only function of this body of law is to identify

the ultimate source of the goods, i.e., the owner of the mark. 3A R. Callmann, supra, at 76; 2 S. Ladas, Patents, Trademarks and Related Rights § 732, at 1341 (1975); Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 Wash. L. Rev. 433, 453 (1982). Where, as here, the domestic owner of the mark has licensed the use of its mark by a foreign manufacturer, this theory logically leads to the conclusion that there can be no confusion as to source. 3A R. Callmann, supra; 2 S. Ladas, supra; Takamatsu, supra, at 457. Hence, it cannot serve as the rationale for granting a Lanham Act injunction.

B. The Guarantee Function

Many commentators however recognize that trademark law also serves

to guarantee the quality of the trademarked product. 3A R. Callmann, supra, at 75; 2 S. Ladas, supra; 1 J. McCarthy, Trademarks and Unfair Competition, § 18.13, at 827 (2d ed. 1984). This is particularly apparent in the licensing context where the mark's owner licenses another to manufacture the product while retaining only the right to control quality. See 1 J. McCarthy, supra, at 826-28. We have labelled that control which the licensor retains "sponsorship," Societe Comptoir De L'Industrie Cotonniere v. Alexander's Dep't Stores, 299 F.2d 33, 35 (2d Cir. 1962), and have deemed confusion as to "sponsorship" to be confusion as to "source of origin." Id.

Recognizing that sponsorship includes quality control -- and viewing the territorial sales restrictions

imposed by OAA as a means of quality control -- it follows that Granada's importation of dolls with Spanish birth certificates, adoption papers and instructions into the United States may confuse the public as to whether OAA "sponsored" the importation of what the public perceives to be inferior dolls. This confusion is sufficient to constitute a violation of the Lanham Act. See Takamatsu, supra, 457-58 (acceptance of the guarantee function leads to the conclusion that the importation of goods of different quality is trademark infringement, even where domestic and foreign marks are owned by the same person); 2 S. Ladas, supra (same). See also 4A Callmann, supra, § 26.27, at 63-64 ("Here . . . we may have some other form of confusion, involving for example the guarantee function of trademarks rather than the source-

identification function.") (footnotes omitted).

The necessity of providing a remedy against quality infringement by third-parties is particularly essential in a licensing arrangement because the Lanham Act imposes an affirmative duty upon the licensor to maintain quality control. See Church of Scientology, 794 F.2d at 43; Franchised Stores of New York, Inc. v. Winter, 394 F.2d 664, 669 (2d Cir. 1968). As we noted in Franchised Stores, "[i]t would be anomalous . . . to burden the trademark owner with this 'affirmative' duty and then . . . deny him a federal forum in which to control his licensees." 394 F.2d at 669.

Even the guarantee function, in my view, is not entirely free from doubt as a basis for issuing an injunc-

tion. It has been argued that the importation of genuine but inferior goods of a foreign licensee is the fault of the trademark owner "in not exercising adequate supervision of the mark," and that its failure "should not be a justification for protecting it under the trademark laws for the situation it has created." See Vandenburgh, The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem, 49 Trade Mark Rptr. 707, 716 (1959) (emphasis in original). See also Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416, 419 (S.D. Fla. 1983) (Criticizing mark owner for seeking federal trademark protection "to insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources.").

This argument is not persuasive when, as in this case, it is not clear that OAA could not have prevented by contract the importation of these Cabbage Patch dolls by third-party distributors, such as Granada. As a practical matter OAA appears to have tried. Under its license Jesmar agreed not to sell outside its Spanish-licensed territory, and further agreed to sell only to purchasers who also agreed not to sell outside that territory. Without any effective means of further controlling the distribution of its product, for example, by means of an equitable servitude on the dolls, OAA should not be held responsible for the dolls' importation. See, e.g., 2 R. Callmann, supra, § 16.16 at 83 ("[Equitable] servitudes have not been the basis of any holding barring parallel imports of genuine trademarked goods"); Z. Chafee,

The Music Goes Round and Round: Equitable Servitudes and Chattels, 69 Harv. L. Rev. 1250, 1255-56 (1956) (only scarce authority on the validity of equitable servitudes on chattels). Significantly, the only other situation in which trademark laws have been used against admittedly "genuine" goods arose when the U.S. owner of the mark did not have a contract remedy available to prevent the importation of the foreign product. See A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923).

C. The Exhaustion Doctrine

Several commentators have suggested that the trademark doctrine of "exhaustion" also cuts against a finding of infringement in the importation of parallel goods. See, e.g., 3A R. Callmann, supra, § 21.17, at 75.

Simply put, this doctrine provides that a distributor, like Granada, has the "right to resell a branded item in an unchanged state." 2 J. McCarthy, supra, § 25.11, at 261. See also Takamatsu, supra, at 456. The rationale underlying this doctrine is that trademark rights are exhausted once the trademarked goods have been duly placed into the market. Takamatsu, supra. But it is well-recognized that the exhaustion doctrine does not apply to genuine goods which have been altered. See 2 J. McCarthy, supra, § 25.10 at 259.

Here, because the dolls were manufactured and sold by Jesmar as authorized and licensed by OAA and not physically altered thereafter, it might be argued that Granada should be able to resell them in this unaltered state. The more persuasive view, I believe, is

that the "exhaustion" doctrine does not apply with equal force in the international context. See 2 S. Ladas, supra, § 732, at 1341, Takamatsu, supra, at 457. Here the same mark has been attached to essentially two different products in the two countries, and each product has developed its own good-will in its country. Although the Spanish dolls have not been physically altered during their importation, the sale of these dolls in the U.S. upsets the settled expectations of U.S. consumers about what they will receive when they purchase a Cabbage Patch doll. Because an American consumer would be disappointed by the same doll that would satisfy a Spanish consumer, the very act of importing goods may be viewed, in an abstract sense, as an alteration of the doll.

II

In sum, the district court properly granted OAA the injunctive relief it requested. Once one adopts the guarantee function of trademark law, it becomes clear that OAA has a right to relief from potential consumer confusion as to whether it sponsored the importation of these genuine but "inferior" dolls. It is this violation of the mark owner's right to control the quality of its product, that is to say its sponsorship, that is deemed confusion as to source.

For these reasons, I conclude that Granada's importation of the Jesmar dolls creates the likelihood of consumer confusion as to source of origin and thus constitutes a violation of the Lanham Act. Consequently, I join the majority in voting to affirm the

district court's issuance of an injunction to prevent further importation.

Opinion and Order of the District Court

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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85 Civ. 9064
(WCC)

ORIGINAL APPALACHIAN ARTWORKS, INC.,

Plaintiff,

- against -

GRANADA ELECTRONICS, INC.,

Defendant.

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CONNER, D. J.:

This action raises again the always troublesome issue whether the owner of a registered U.S. trademark can prevent the sale in this country of imported "grey goods" bearing the trademark which are manufactured abroad under license from the owner. The Court concludes that, at least in the particular circumstances of this case, where the foreign license is territorially restricted and the foreign-made goods are materially different from the U.S.-made goods, the question must be answered affirmatively.

The action was brought by Original Appalachian Artworks, Inc. ("OAA"), the original source and licensor of the well-known CABBAGE PATCH KIDS ("CPK") dolls, against Granada Electronics, Inc. ("Granada"), a United

States importer and distributor of CPK dolls made in Spain by Jesmar, S.A. ("Jesmar") under license from OAA. The action originally charged not only infringement of OAA's U.S.-registered trademark CABBAGE PATCH KIDS but also infringement of OAA's U.S.-registered copyright on the design of the dolls. However, at the trial, the copyright claim was voluntarily dismissed with prejudice.

Following a two-day non-jury trial on the trademark claim, the Court makes the following findings of fact and conclusions of law, pursuant to Rule 52(a), Fed. R. Civ. P.

Findings of Fact

OAA is a corporation of the State of Georgia with its principal place of business in Cleveland, Georgia.

Granada is a corporation of the State of New York having its principal place of business in Brooklyn. OAA is engaged in the manufacture and sale of soft-sculpture dolls under the trademark CABBAGE PATCH KIDS. OAA is also engaged in licensing, the manufacture and sale of CPK dolls and related items by others under its trademark and copyright.

OAA's own soft-sculpture CPK dolls are completely hand-sewn in Cleveland, Georgia by OAA and are sold at retail for a price in excess of $100. OAA markets these CPK dolls through what it calls "adoption centers," which are primarily specialty stores and finer department stores. OAA has approximately 450 of these outlets around the United States. In addition, OAA has two retail stores of its own where it offers for "adoption," or sale, its CPK dolls.

With each "adoption," or purchase, of a CPK doll, the purchaser receives a "birth certificate" and "adoption papers" to be filled out by or for the "parent," or owner, of the doll, who takes an "oath of adoption." A copy of the executed adoption papers is returned to OAA and the relevant information thereon is entered in OAA's computer. On the first anniversary of the "adoption," the "adopting parent" receives a "birthday card" from OAA. This "adoption" process is an important element of the mystique of the CPK dolls, which has substantially contributed to their enormous popularity and commercial success.

On March 1, 1982, OAA entered into an agreement with Schlaifer Nance and Company, Inc. ("SNC") whereby SNC was engaged to act as OAA's exclusive

agent to license the CPK rights to others. On August 8, 1982, OAA, through SNC, granted a license to Coleco Industries, Inc. ("Coleco") of Hartford, Connecticut to manufacture, promote and distribute copies of plaintiff's CPK dolls within the United States. CPK dolls marketed by Coleco are a smaller version of OAA's soft-sculpture CPK dolls. However, instead of being entirely hand-sewn from fabric like the OAA dolls, those of Coleco are mass-produced with vinyl heads and are packaged in boxes which prominently feature the CABBAGE PATCH KIDS trade-mark, and set forth the CPK "legend,"[1] while the original dolls of OAA are unpackaged. The Coleco CPK dolls normally retail at a price of $35 to $45.

The Coleco CPK dolls, like those of OAA, are accompanied by birth certificates and adoption papers which prominently display the CABBAGE PATCH KIDS trademark. These dolls are also accompanied by English-language instructions directing the purchaser to return the completed adoption papers in a pre-addressed envelope to a processing center in the United States. These instructions also describe the procedure for "legally" changing the name of the doll if desired. To process the adoption papers, Coleco engages the services of "fulfillment houses" which are compensated on a per-piece basis. Upon receipt of the adoption papers, the fulfillment house sends the "adopting parent" a suitable-for-framing birth certificate as well as a birthday card on the first "birthday" of the doll.

Coleco was initially given worldwide rights for manufacture and distribution of CPK dolls and related articles, but subsequently relinquished its worldwide rights. Thereafter, OAA, through its exclusive licensing agent SNC, licensed other companies outside the United States to manufacture and sell, in specified areas outside the United States, the vinyl-headed smaller version of the CPK doll similar to that sold by Coleco. On April 13, 1984, SNC licensed Jesmar to manufacture and distribute this version of the CPK doll in Spain, the Canary Islands, Andorra and Ceuta Melilla. Like other foreign licensees, Jesmar agreed not to make, sell or authorize any sale of the licensed products outside its licensed territory. Jesmar further agreed that it would sell or distribute licensed products only with an express agreement

that the purchaser will not use or resell the licensed products outside the licensed territory.

The CPK dolls made by Jesmar come in boxes on which the "legend" of the CPK dolls, and most of the other wording, is printed entirely in the Spanish language. However, the CABBAGE PATCH KIDS trademark is prominently displayed in English on all panels of the box except the bottom. Also printed in English are the words "The World of" which immediately precede the trademark CABBAGE PATCH KIDS on the rear panel of the box, and the name Original Appalachian Artworks, Inc. and its address, Cleveland, Georgia, U.S.A. which appear in small print in the copyright notice.

The Jesmar dolls are sold with birth certificates and adoption papers

which are completely in the Spanish language, as are the instructions for completing the "adoption" and obtaining a change of name. The mailing address to which the adoption papers are directed to be sent is located in Spain.

OAA received Trademark Registration No. 1,298,970 from the United States Patent and Trademark Office on October 2, 1984 for the trademark CABBAGE PATCH KIDS for dolls. Thereafter, OAA caused Trademark Registration No. 1,298,970 for CABBAGE PATCH KIDS for dolls to be recorded with the United States Customs Service. As directed by the regulations of the United States Customs Service, 19 C.F.R. §§ 133.2(c), 133.21-.24 (1985), OAA's application for recordation with Customs included, inter alia, "[t]he name and principal business address of each

foreign person or business entity authorized or licensed to use the trademark and a statement as to the use authorized." Accordingly, Jesmar was listed on the application for Customs recordation by OAA. Consequently, the Customs Service sent a letter to its officials authorizing CPK dolls made by Jesmar to pass through Customs, as the Customs Service regulations do not provide for halting the importation of goods which were made abroad under license granted by the recording party.

OAA has, or has had, at least 120 licenses for various CPK products, with Coleco's vinyl-headed version of the CPK doll being the centerpiece of this licensing program. Coleco has enjoyed spectacular commercial success with its version of the CPK doll, with sales of over 37 million of such dolls.

Coleco spent $1,800,000 in advertising its CPK dolls in 1983, approximately $5,000,000 in 1985 and approximately $2,900,000 in the first two quarters of 1986, for a total of approximately $9,700,000 on CPK dolls alone. Coleco's advertising for the entire CPK product line through 1985 totals $38,800,000 and Coleco plans to spend approximately $20,000,000 more in advertising for the line in 1986.

Coleco has produced a number of television commercials advertising its CPK dolls, which highlight the "adoption" process, and these commercials have been extensively broadcast throughout the United States. By virtue of Coleco's large advertising expenditures for its version of the CPK doll and related products and its substantial sales, the CABBAGE PATCH KIDS trademark

has become famous and associated with Coleco as the source for its version of the CPK dolls in the United States.

In December 1986 OAA and Coleco became aware that the vinyl-headed CPK dolls manufactured by Jesmar and similar CPK dolls of other foreign licensees were being sold in the United States. OAA and Coleco each received numerous letters from United States purchasers of these foreign CPK dolls, including those of Jesmar, expressing disappointment that they had received birth certificates and adoption papers which were not in English and which they could not understand.

In addition, beginning in December 1984, Coleco received an average of 12 to 15 telephone calls a day complaining about CPK dolls with foreign language birth certificates and

adoption papers. Approximately 40% of these calls concerned Jesmar's Spanish-made CPK dolls.

Purchasers have come to expect that dolls sold in the United States bearing the trademark CABBAGE PATCH KIDS will include birth certificates and adoption papers in the English langugage which can be mailed to an addressee in the United States, who will process the adoption papers and return them to the "parent." Jesmar dolls imported into and sold in the United States under the trademark CABBAGE PATCH KIDS by Granada will likely cause confusion, mistake and deception on the part of the purchasing public because these dolls with Spanish language adoption papers and birth certificates are not the product those purchasers expect to receive when they purchase a CPK doll in the United

States. Consumers are therefore being misled and disappointed and frequently hold OAA and/or Coleco responsible therefor. The sale of these non-conforming CPK dolls in the United States therefore has damaged and threatens to continue to damage the reputation of OAA and Coleco as sources of high quality CPK products.

To combat the problem of the sale of non-conforming foreign CPK dolls in the United States, OAA's exclusive licensing agent, SNC, sent both a letter and a telex message to each of its foreign licensees for the vinyl-headed CABBAGE PATCH KIDS dolls, including Jesmar, reminding them that said licensees were contractually obligated not to sell foreign-made CPK dolls out of their licensed territories. Further, OAA filed at least 24 lawsuits in the United

States against distributors and importers of the foreign-made CPK dolls.

The CPK dolls manufactured in Spain by OAA's licensee, Jesmar, were imported into the United States by Granada, who resold the dolls through jobbers and retail chains. These dolls bore the trademark CABBAGE PATCH KIDS prominently printed in English on the package.

Granada had no communications with agents of OAA, SNC, or with Coleco regarding its importation of foreign-made CPK dolls into the United States and thus had no authorization from OAA, Coleco or SNC for such importation or sale.

Granada introduced evidence intended to establish that the retail price of foreign-made CPK dolls in the

United States was substantially lower than that of the Coleco CPK dolls. Granada also introduced evidence that Granada had unsuccessfully attempted to purchase CPK dolls directly from Coleco. OAA introduced opposing evidence on both points. However, the Court need not resolve the conflict because trademark infringement is not excused by either the high price or the scarcity of the genuine product.

Conclusions of Law

OAA's registration of the trademark CABBAGE PATCH KIDS for dolls is prima facie evidence of the validity of that registration and of OAA's exclusive right to use the CABBAGE PATCH KIDS trademark. Nature's Bounty, Inc. v. SuperX Drugs Corp., 490 F. Supp. 50, 53-54 (E.D.N.Y. 1980). Granada has not

challenged the validity of the registration nor OAA's rights in the trademark.

The Lanham Trademark Act of 1946, 15 U.S.C. § 1114(1)(a), prohibits the unauthorized sale of goods bearing a registered trademark where there is a likelihood of confusion, mistake or deception of purchasers. Syntex Laboratories, Inc. v. Norwich Pharmacal Co., 437 F.2d 566, 568 (2d Cir. 1971).

The report of the Senate Committee on Patents respecting the bill which became the Lanham Act described its objective as follows:

> The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and

> money in presenting to the public the product, he is protected in his investment.

S. Rep. No. 1333, 79th Cong., 2d Sess. 1, reprinted in 1946 U.S. Code Cong. & Ad. News 1274, 1274. Thus, the purchasing public is an unnamed party in every action for trademark infringement.

The public to be protected consists not of sophisticated buyers who make careful decisions but hypothetical "average" purchasers.

> The law is not made for the protection of experts, but for the public -- that vast multitude which includes the ignorant, the unthinking and the credulous, who, in making purchases, do not stop to analyze, but are governed by appearances and general impressions.

Florence Mfg. Co. v. J.C. Dowd & Co., 178 F. 73, 75 (2d Cir. 1910); see also

Stork Restaurant v. Sahati, 166 F.2d 348, 359 (9th Cir. 1948).

The Jesmar CPK dolls with foreign language birth certificates, adoption papers and instructions are materially different from the Coleco CPK dolls with English language papers. The sale in the United States of the Jesmar dolls with the CABBAGE PATCH KIDS trademark prominently displayed in English on the package causes the public to confuse or mistake the Jesmar dolls for the Coleco dolls with English-language papers which they expect to be on sale in this country.

OAA has amply demonstrated that purchasers are confused as to the source of the Spanish-made CPK dolls and that the sale of such dolls in the United States with Spanish language birth certificates and adoption papers

has injured the reputation and good will of OAA and its licensee Coleco. Granada's sale of the Jesmar CPK dolls in the United States is therefore actionable under 15 U.S.C. §1114(1)(a). Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983).

While OAA's listing of Jesmar on its application for recordation of the trademark CABBAGE PATCH KIDS with the United States Customs Service pursuant to 19 C.F.R. §§ 133.2(c), 133.21-.24 (1985), permits the trademarked dolls made by Jesmar to pass through customs, it does not extinguish OAA's right to protection against unauthorized sale of the imported dolls in the United States. Vivitar Corp. v. United States, 761 F.2d 1552, 1570 (Fed. Cir. 1985) cert. denied, 106 S. Ct. 791 (1986); Olympus Corp. v. United States,

No. 85-6282, slip op. at 3974 (2d Cir. June 9, 1986) (to be reported at 792 F.2d 315).

A trademark owner may not ordinarily complain about goods sold in the United States under his mark when the trademark was applied with authorization that the goods be sold in the United States, whether or not the goods are different from or inferior to those made in this country. Alfred Dunhill, Ltd. v. Interstate Cigar Co., Inc., 499 F.2d 232 (2d Cir. 1974); Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F. Supp. 1525, 1528-29 (S.D.N.Y. 1986); El Greco Leather Prods. Co., Inc. v. Shoe World Inc., 599 F. Supp. 1380, 1394 (E.D.N.Y. 1984). However, in this case the use of the trademark CABBAGE PATCH KIDS on foreign-made goods was authorized only for goods to be sold in

specified areas outside of the United States, and with the licensee's express commitment that they will not be sold outside the specified areas. In these circumstances, the Court concludes that OAA has not contractually relinquished its right to protection against the sale of the non-conforming foreign-made products in this country and that the public's interest requires such protection.

Granada's argument that OAA can readily protect the public merely by supplying English-language papers to the purchasers of the Jesmar dolls is not persuasive. A U.S. trademark owner is under no legal or even moral obligation to supply what an infringer has misled its customers to expect.

Granada will be permanently enjoined from further importation of the

Jesmar dolls and other CPK dolls made abroad under similar territorially restricted licenses. Counsel will be notified in due course of a conference to set a trial on the issue of damages for past infringement.

SO ORDERED.

/s/ William C. Conner
United States District Judge

Dated: New York, New York
July 23, 1986

FOOTNOTE

1. "The Legend of the Cabbage Patch Kids" is that many years ago a young boy named Xavier happened upon an enchanted cabbage patch where he found very special little people who called themselves Cabbage Patch Kids. To help fulfill the Cabbage Patch Kids' dream of having familes with whom to share their love, Xavier set about building a special place known as Babyland General, where the Cabbage Patch Kids remain until each is chosen for adoption.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

CIVIL ACTION NO.
85 CIV. 9064 (WCC)

ORIGINAL APPALACHIAN ARTWORKS, INC.,

Plaintiff,

-v-

GRANADA ELECTRONICS, INC.,

Defendant.

PERMANENT INJUNCTION ORDER

After due consideration of the issues in this litigation including the testimony of the witnesses at the two day bench trial held on June 30 and July 1, 1986, and the exhibits and briefs of the parties, and the Court

having rendered a fifteen page decision, dated July 23, 1986, permanently enjoining defendant from the importation of CABBAGE PATCH KIDS® dolls intended for distribution outside the United States only, with the damages due plaintiff to be tried at a later date;

IT IS HEREBY ORDERED, ADJUDGED AND DECREED: that pursuant to Rule 65 of the Federal Rules of Civil Procedure the defendant, Granada Electronics, Inc., its officers, agents, servants, employees and all persons in active concert or participation with them are hereby permanently enjoined from:

Any importation, sale, offering for sale or distribution within the United States of CABBAGE PATCH KIDS® dolls manufactured or distributed by Jesmar, S. A. of Spain or of any other CABBAGE PATCH KIDS® dolls with foreign-

language adoption papers manufactured or distributed outside of the United States under a territorially restricted license from plaintiff, Original Appalachian Artworks, Inc.

Dated: New York, New York
July 31, 1986

/s/ William C. Conner
United States District Court

Supreme Court, U.S.
FILED
SEP 2 1987
JOSEPH F. SPANIOL, JR.
CLERK

(2)

No. 87-38

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

GRANADA ELECTRONICS, INC.,
Petitioner,

v.

ORIGINAL APPALACHIAN ARTWORKS, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

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BRIEF OF 47TH STREET PHOTO, INC. AS *AMICUS CURIAE* IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

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14 pp

QUESTION PRESENTED

Whether Section 32 of the Lanham Trademark Act, 15 U.S.C. § 1114(1), applies to merchandise manufactured abroad under a license from the American trademark owner if authentic goods, bearing the licensed trademark, are sold to a United States distributor in breach of the licensee's contract.

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IN THE

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OCTOBER TERM, 1987

No. 87-38

GRANADA ELECTRONICS, INC.,
Petitioner,

v.

ORIGINAL APPALACHIAN ARTWORKS, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

---

BRIEF OF 47TH STREET PHOTO, INC. AS *AMICUS CURIAE* IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

47th Street Photo, Inc.,[1] respectfully submits this brief as *amicus curiae* in support of the petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit filed by Granada Electronics, Inc.[2]

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1. 47th Street Photo, Inc., has no parent, subsidiary or affiliated companies.

2. Pursuant to Rule 36.1 of the Rules of this Court, consent to the filing of this brief has been granted by both parties. The letters of consent have been lodged with the Clerk of the Court.

INTEREST OF THE *AMICUS CURIAE*

47th Street Photo, Inc., is a New York corporation founded in 1966, whose principal place of business is in New York City. It is an innovative merchandiser of camera, video, computer and other electronic equipment. It sells many products at a discount at its showrooms and through its mail-order catalog. Some of the merchandise offered by 47th Street Photo enters the United States through "parallel importation." The goods are purchased abroad from authorized foreign distributors of those products, rather than in the United States from authorized American distributors. Because the United States marketplace is not as competitive as some foreign markets, the prices charged by many United States distributors of foreign-manufactured goods are higher than the wholesale prices charged for the same goods by authorized foreign distributors. Thus, even after paying transportation costs and customs duties, 47th Street Photo can offer considerable savings to United States consumers by purchasing its inventory from authorized distributors abroad. If 47th Street Photo were forced to purchase equipment at the artificially inflated prices charged by authorized United States distributors, its prices would rise considerably, substantially threatening its ability to do business.

In recent years, holders of domestic trademarks have filed numerous lawsuits under the trademark laws seeking to eliminate competition from parallel importers. To protect the legality of parallel importation, 47th Street Photo has participated in many of these suits. It is presently a petitioner before this Court in *K mart Corporation v. Cartier, Inc.*, Nos. 86-495, 86-624 and 86-625.

The present case concerns the importation into the United States of goods manufactured abroad by the licensee of the United States trademark owner. The Second Circuit's decision that the sale of authentic

goods whose manufacture is licensed by the trademark owner can violate Section 32 of the Lanham Act conflicts with the decision of the Ninth Circuit in *NEC Electronics v. CAL Circuit Abco,* 810 F.2d 1506 (9th Cir. 1987), on a question of great practical importance to manufacturers, distributors, retailers and consumers. Until the conflict between the Circuits is resolved, businesses that must make investments of hundreds of millions of dollars will be unable to plan their marketing programs. Consumers will also be hurt, since they will no longer be able to rely on the practice of parallel importation to keep prices for goods in the United States near the level at which those goods are offered in foreign markets.

STATEMENT

Original Appalachian Artworks, Inc. ("OAA"), the worldwide owner of the registered trademark "Cabbage Patch Kids" for dolls, licensed Coleco Industries, Inc., to manufacture dolls bearing its trademark and to distribute these dolls in the United States. OAA also licensed Jesmar, S.A., to manufacture and distribute dolls bearing OAA's trademark in Spain, Andorra, the Canary Islands and Ceuta Melilla. The Jesmar dolls prominently display the Cabbage Patch Kids trademark, in English, on all panels of the boxes in which the dolls are packaged. All other labeling on the packaging is in Spanish, as are the "birth certificates" and "adoption papers" for the dolls.

Under its license with OAA, Jesmar agreed to sell only in its market and not to sell to a purchaser who would resell outside of Jesmar's territory. Authentic dolls manufactured by Jesmar were nevertheless imported into the United States by Granada Electronics, Inc., the petitioner in this case. The legal issue presented is whether the sale of authentic goods imported in this

manner constitutes trademark infringement in violation of Section 32 of the Lanham Trademark Act, 15 U.S.C. § 1114(1).

The district court found that the Jesmar dolls imported into the United States "will likely cause confusion, mistake and deception on the part of the purchasing public because these dolls with Spanish language adoption papers and birth certificates are not the product those purchasers expect to receive when they purchase a [Cabbage Patch Kid] doll in the United States." *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 640 F. Supp. 928, 931 (S.D.N.Y. 1986). The Court of Appeals' majority held that "even though the [dolls] do bear OAA's trademark and were manufactured under license with OAA, they are not 'genuine' goods because they differ from Coleco's dolls and were not authorized for sale in the United States." *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68, 73 (2d Cir. 1987).

REASONS FOR GRANTING THE WRIT

The decision of the Second Circuit violates established principles of trademark law and opens the door to multiple vexatious lawsuits against firms engaged in lawful sales competition that substantially benefits consumers. Since the decision below conflicts squarely with the ruling of the Ninth Circuit in *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987), wholly different legal principles will henceforth be applied to lawsuits brought on identical claims in New York and California. We enumerate briefly the fundamental propositions of trademark law that are undermined by the Second Circuit's decision.

1. Trademark law does not protect a trademark owner against competition from his own authentic product.

OAA prevailed below on the ground that consumers will tend to confuse the genuine goods manufactured by one trademark licensee with the genuine goods manufactured by another licensee. But a trademark owner has no trademark right "to insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources." *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 419 (S.D. Fla. 1983); *see In re Wella, A.G.*, 787 F.2d 1549, 1552-53 (Fed. Cir. 1986).

The claim that the Lanham Act prevents "intra-brand" consumer confusion flies in the face of the definition of a trademark as a mark applied to distinguish the mark-owner's goods from goods "manufactured or sold by others." *See* 15 U.S.C. § 1127. OAA authorized its mark to be placed on both Coleco's dolls and Jesmar's dolls in order to distinguish these dolls from goods "manufactured or sold by others." There is no support in trademark law or in policy for the Second Circuit's holding that a trademark distinguishes the goods of one licensee from those of another.

To the contrary, a licensor who applies his trademark to materially different goods will generally be held to have abandoned his trademark. *Cf. VISA, U.S.A., Inc. v. Birmingham Trust Nat'l Bank*, 696 F.2d 1371, 1375 (Fed. Cir. 1982), *cert. denied*, 464 U.S. 826 (1983); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285, 289 (8th Cir. 1969). A mark will be deemed abandoned if the registrant "causes the mark to lose its significance as an indication of origin." 15 U.S.C. § 1127. Under the trademark law, the licensor has a duty to control the quality of its licensee's merchandise. *See generally* 3 R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 19.50 (Altman 4th ed. 1983). As the Ninth Circuit has stated:

> The licensor owes an affirmative duty to the public to assure that in the hands of his licensee the trade-mark continues to represent that which it purports to represent. For a licensor . . . to permit inferior products to be presented to the public under his licensed mark might well constitute a misuse of the mark.

Siegel v. Chicken Delight, Inc., 448 F.2d 43, 51 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972); *see also Haymaker Sports, Inc. v. Turian*, 581 F.2d 257, 261 (C.C.P.A. 1978); *Robinson Co. v. Plastics Research and Development Corp.*, 264 F. Supp. 852, 863 (W.D. Ark. 1967).

2. Section 32 applies only to spurious goods.

Section 32 prohibits the use without consent of "any reproduction, counterfeit, copy, or colorable imitation of a registered mark" in the distribution of goods which is likely to cause confusion. *See also Franchised Stores of New York, Inc. v. Winter*, 394 F.2d 664, 667-69 (2d Cir. 1968). Its plain language reaches only counterfeits, copies, or spurious imitations, not authentic or genuine goods manufactured under license. In this respect, Section 32 is *in pari materia* with Section 42 of the Lanham Act, 15 U.S.C. § 1124, which explicitly governs the importation of trademarked merchandise. Section 42 prohibits the importation of goods that "copy or simulate" a United States trademark.[3] The Second Circuit

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3. This Court itself has obliquely addressed the scope of Section 42. In *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923) (per curiam), this Court held in a one-sentence per curiam opinion that under the reasoning of its earlier decision in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), the predecessor of Section 42 of the Lanham Act could bar the importation of goods manufactured abroad and bearing a genuine trademark if an independent domestic trademark owner had purchased the United States trademark rights for a product in an arms-length transaction from a foreign

itself stated in *Olympus Corp. v. United States*, 792 F.2d 315, 321 (2d Cir.), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757):

> The plain language of [Section 42] does not bar importation if the goods are genuine, only if they "copy or simulate" a trademark. . . . [Section 42] applies only to merchandise bearing counterfeit or spurious trademarks that "copy or simulate" genuine trademarks.

Accord American Honda Motor Co., Inc. v. Carolina Autosports Leasing and Sales, 645 F. Supp. 863, 866 (W.D.N.C. 1986); *Lever Brothers Co. v. United States*, No. 86-3151 (D.D.C. Jan. 27, 1987), *petition for cert. before judgment denied*, 55 U.S.L.W. 3793 (U.S. May 26, 1987); *Coalition to Preserve the Integrity of American Trademarks v. United States ("COPIAT")*, 598 F. Supp. 844, 848 (D.D.C. 1984), *rev'd on other grounds*, 790 F.2d 903 (D.C. Cir.), *cert. granted*, 107 S. Ct. 642 (1986) (Nos. 86-495, 86-624 & 86-625).[4]

3. A trademark owner relinquishes control over goods that he has introduced into commerce.

The Second Circuit based its decision on the fundamentally mistaken premise that a trademark holder may exercise control over the subsequent distribution of goods to which a trademark has been lawfully applied. This violates the established rule that it is only the first

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trademark owner. Courts interpreting Section 42 in light of *Aldridge* have consistently limited *Aldridge* to the special equities presented in the *Katzel* and *Aldridge* cases.

4. The Court may wish to defer disposition of the present petition for certiorari to await decision of these cases now on the Court's docket and scheduled for argument on October 6, 1987. Although the questions presented in those cases principally concern Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, rather than the statutory trademark questions presented in this petition, the Court's decision may address issues that would influence the issues raised in this petition.

sale, and not resales, which the trademark holder can control under the trademark law. As the leading commentator states:

> The resale or advertising for sale of the genuine plaintiff's article in its original form, under plaintiff's trademark, affixed by plaintiff's authorization, is not trademark infringement.

3A R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 21.13, at 62 (Altman 4th ed. 1983) (footnote omitted).

The Second Circuit has expanded the concept of "authorization" beyond rational limits. OAA's claim that it did not "authorize" importation of Jesmar's dolls turns not on any inherent characteristic of the licensee's goods but solely on where the goods are eventually sold to consumers. There is no basis in trademark law for such a construction. If Jesmar violated its licensing agreement with OAA by selling to purchasers who brought the dolls to the United States, OAA's remedy is an action against Jesmar for breach of contract, not an action against Granada Electronics for trademark infringement.

CONCLUSION

For the foregoing reasons, 47th Street Photo respectfully urges that the petition of Granada Electronics, Inc., for a writ of certiorari be granted.

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Dated: September 2, 1987

Supreme Court, U.S.
FILED
SEP 2 1987
JOSEPH F. SPANIOL, JR.
CLERK

No. 87-38

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

GRANADA ELECTRONICS, INC.,
Petitioner,

v.

ORIGINAL APPALACHIAN ARTWORKS, INC.
Respondent.

AMICUS CURIAE BRIEF OF THE COALITION FOR COMPETITIVE IMPORTS IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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v.

ORIGINAL APPALACHIAN ARTWORKS, INC.
Respondent.

AMICUS CURIAE BRIEF OF THE COALITION FOR COMPETITIVE IMPORTS IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

The Coalition for Competitive Imports respectfully submits this brief as amicus curiae in support of the petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit filed by Granada Electronics, Inc.[1]

INTEREST OF THE AMICUS CURIAE

The Coalition for Competitive Imports is an ad hoc coalition of trade associations and companies which are independent American importers, distributors, and retailers of free market, price-competitive trademarked consumer products, sometimes called "parallel imports."[2]

[1] Pursuant to Rule 36.1 of this Court, consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Clerk.

[2] For purposes of this brief, the Coalition for Competitive Imports includes, among others, the American Free Trade Association, the American Consumer Trade Council, K mart Corporation, Best Products, Inc., and Gruen Marketing Corporation.

Parallel imports, also known as gray market goods, are genuine trademarked consumer products, such as fragrances, 35mm cameras, electronic products, and watches, which are typically manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world. They do this by creating wholly-owned or controlled subsidiaries in this country, designating those companies as the exclusive "authorized" importers and distributors for their products here, and refusing to sell to retailers who will not maintain the higher prices for the products.

The obvious result in a free enterprise, free trade market is that independent American importers can purchase the same products overseas at the world price, often even directly from the manufacturers' "authorized" distributors abroad. The foreign manufacturers' price differential for the U.S. market is so great that, even after paying shipping costs and U.S. Customs duties, the parallel importer can offer these popular articles for twenty to forty percent less than the U.S. "authorized" distributor.

The result is a saving to American consumers amounting to billions of dollars a year. Another result is the availability of popular products to a much wider spectrum of Americans who do not live in the large cities where the exclusive authorized stores are generally located. The parallel import trade also serves as an independent bulwark against unrestrained increases in the domestic prices of imported consumer goods as compared to prices available worldwide.

A substantial American industry of importers, distributors and retailers, with hundreds of thousands of employees, serves the millions of American consumers who buy these popular, foreign-made products at the prices they would pay if they could shop for them abroad. The retailers of parallel imports are responsible for total consumer sales of $100 billion a year. The parallel import industry also makes an enormous investment in the good will of trademarked products through its own widespread advertising and marketing of these products.

The Coalition has a vital stake in the outcome of this case. The instant challenge under the trademark laws is just one prong of a full-scale attack by some manufacturers who are attempting to eliminate the legitimate and beneficial competition presented by the parallel importation of their own products. Coalition members have actively participated in resisting these attacks, including opposing the challenge, which is currently pending before the Court, to the Customs regulation and policy that has made parallel importation possible for more than half a century. *Copiat v. United States*, 790 F.2d 903 (D.C. Cir. 1986), *cert. granted*, 93 L.Ed.2d 699 (1986).[3]

The Coalition supports the petitioner's contention that the court of appeals erred in its interpretation of Section 32 of the Lanham Trademark Act of 1946, 15 U.S.C. § 1114(a)(1). The Coalition believes that a U.S. registered trademark owner may not prevent the sale in the United States of genuine trademarked articles that have been introduced by the trademark owner, or its licensees, in the international market and imported by independent importers into the United States.

STATEMENT OF THE CASE

This case involves a challenge under the Lanham Act to the sale in the United States of genuine trademarked "Cabbage Patch Kids" ("CPK") dolls imported by petitioner, an independent American importer. The respondent is the United States owner of the registered trademark "Cabbage Patch Kids" and is also the manufacturer and distributor of hand-sewn, soft sculpture CPK dolls in the United States. In addition, through a licensing agent, respondent has licensed other companies, both in the United States and worldwide, to

[3] Coalition members have participated in other challenges to parallel importation, including *Vivitar Corp. v. United States*, 593 F.Supp. 420 (C.I.T. 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 88 L.Ed.2d 769 (1986); *Olympus Corp. v. United States*, 627 F.Supp. 911 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (2d. Cir. 1986); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d. Cir. 1983), *vacating and remanding*, 548 F.Supp. 1068 (E.D.N.Y. 1982); *Johnson & Johnson Products, Inc. v. Dal International Trading Co.*, 798 F.2d 100 (3d Cir. 1986).

manufacture, promote and distribute the smaller, less expensive, mass-produced CPK dolls which have vinyl, as opposed to soft sculpture, heads and which are the dolls in question in this case. Respondent includes restrictions in these license agreements prohibiting its licensees from making, selling or authorizing for sale the CPK dolls outside of their respective license territories.

In the United States, respondent has licensed Coleco Industries, Inc. ("Coleco") to manufacture, promote and distribute the smaller, vinyl CPK dolls. Overseas, the respondent has licensed, among others, Jesmar, S.A. ("Jesmar") to manufacture and distribute the CPK dolls. Jesmar is licensed to distribute CPK dolls in Spain, the Canary Islands, Andorra and Ceuta Melilla.

All of the CPK dolls, whether manufactured in the United States or overseas, are accompanied by "birth certificates" and "adoption papers" which may be filled out by the purchaser. When the completed "adoption papers" are returned to the manufacturer, the "adopting parent" receives a "birthday card" on the first anniversary of the adoption.

In 1985, petitioner sought unsuccessfully to purchase Coleco-manufactured CPK dolls in the United States. Petitioner was subsequently offered Jesmar-manufactured CPK dolls by a United Kingdom merchant. Petitioner learned through its customs broker that, due to respondent's registration of the CPK trademark with the Customs Service and listing of Jesmar as an overseas licensee, Jesmar-manufactured CPK dolls could legally be imported into the United States.[4] Petitioner thereafter purchased the Jesmar dolls and imported and distributed them in the United States.

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[4] For more than fifty years, Customs Service regulations, based upon the Tariff Act of 1922 and the Tariff Act of 1930, 19 U.S.C. 1526, have permitted parallel importation under specific, narrowly-defined circumstances. The current regulation, in place since 1972, permits parallel importation when the foreign and U.S. trademark holders are (1) the same company or (2) under common ownership or control, or (3) where, as in the present case, the U.S. trademark owner has authorized the placing of the mark on the product. 19 C.F.R. 133.21(c). In these cases, the regulation does not permit a trademark owner to block the entry of the parallel imports.

The Jesmar dolls purchased by petitioners bear the CPK trademark displayed in English on all panels of the box except the bottom panel. The boxes also display the words, "The World of," preceding the CPK trademark on the rear panel and display respondent's name and address in English in the copyright notice. The remaining words on the box of the Jesmar dolls, as well as the accompanying adoption papers, birth certificates and instructions, are in Spanish.

Respondent brought suit against petitioner in the United States District Court for the Southern District of New York alleging infringement of respondent's U.S.-registered CPK trademark and U.S.-registered copyright on the design of the dolls. *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 640 F. Supp. 928 (S.D.N.Y. 1986).[5] The district court found that "[t]he Jesmar CPK dolls with the foreign language birth certificates, adoption papers and instructions are materially different from the Coleco CPK dolls with English language papers." *Id.* at 933. The court also found that the public confused the Spanish-language dolls with the Coleco English-language dolls and held that petitioner's sale of the dolls in the United States therefore violated Section 32 of the Lanham Trademark Act of 1946, 15 U.S.C. § 1114(a)(1) (1982). *Id.*

On appeal, the United States Court of Appeals for the Second Circuit affirmed the district court's ruling. *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987). The court stated that "even though the goods do bear [respondent's] trademark and were manufactured under license with [respondent], they are not 'genuine' goods because they differ from the Coleco dolls and were not authorized for sale in the United States." *Id.* at 73.

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[5] At trial, respondent's copyright claim was voluntarily dismissed with prejudice.

REASONS FOR GRANTING THE WRIT

The court of appeals decision below is in direct conflict with the decision of the United States Court of Appeals for the Ninth Circuit in *NEC Electronics, Inc. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987).[6] Faced with these conflicting decisions, and the looming threat of similar challenges in the future if the split in the circuits is not resolved, parallel importers, retailers and wholesalers cannot rely, without relief from this Court, upon the uninterrupted stream of commerce that is vital to the survival of this industry and to continued savings to U.S. consumers of popular trademarked products. The commercial uncertainty posed by the court of appeals' decision below, and others that may follow if the decision is not reversed, could ultimately lead to the end of parallel importation and consumer savings.

Moreover, resolution of the challenge, currently pending before the Court, to the Customs regulation that permits parallel importation will not completely relieve the threat to the parallel import industry. If the present attack under the Lanham Act is not rejected by the Court, parallel importation will be endangered regardless of whether the Court upholds the Customs regulation in the *COPIAT* case. In that event, millions of consumers nationwide could lose the enormous savings made available by parallel imports, and in many cases, lose the availability of some of these products at any price. Accordingly, the Court should grant petitioner's writ and reverse the decision of the court below, so that parallel importation is not further chilled by erroneous interpretations of the trademark laws.

The basis for the court of appeals' decision below was its determination that the CPK dolls imported by petitioner were not "genuine," even though the dolls were admittedly manufactured pursuant to the terms of the respondent's license agree-

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[6] The court's decision below also conflicts with the Ninth Circuit's earlier decision in *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983). Moreover, the Second Circuit's decision in *El Greco Leather Products Co. v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986) is also inconsistent with *NEC* and *Monte Carlo*.

ment with Jesmar and were physically identical to the Coleco dolls. According to the court, the Jesmar dolls were not intended by respondent to be sold in the United States, and more importantly for the court, the Jesmar dolls were materially different from the Coleco CPK dolls sold in the United States because of the Spanish language birth certificates and adoption papers. The court's legal conclusion concerning the genuineness of the CPK dolls conflicts with the holding of the Ninth Circuit in *NEC Electronics, Inc. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987).

NEC involved a challenge to the independent importation of computer chips that were manufactured overseas by NEC Corporation ("NEC-Japan"). NEC Electronics ("NEC-USA"), a U.S. subsidiary of NEC-Japan and assignee of NEC-Japan's United States trademark rights, sued the importer alleging that the sale of the parallel imported computer chips constituted a trademark infringement under the Lanham Act. The Ninth Circuit rejected NEC-USA's trademark claim, finding that a trademark owner cannot object to the unauthorized sale of "genuine" computer chips bearing the NEC trademark.[7]

The Ninth Circuit found that the computer chips were "genuine" even though, just as in the present case, there was no evidence that either the manufacturer or its U.S. subsidiary "intended" the parallel imported computer chips to enter the United States. More importantly, in *NEC* the Ninth Circuit adopted the district court's finding that "some purchasers from

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[7] The Ninth Circuit noted that the Court's decision in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), is an exception to this general principle but found that the special equities present in *Katzel* did not apply to *NEC*. Similarly, neither of the two rationales for the *Katzel* decision, discerned by the Ninth Circuit, apply in this case. Respondent differs from the purchaser in *Katzel* because respondent is not an arms-length, wholly independent purchaser of all right, title and interest in exclusive trademark rights in the U.S. which now faces competition from its transferor that could destroy the entire benefit of its bargain. Nor is the respondent an independent purchaser of exclusive U.S. trademark rights which—after becoming the true source of trademarked goods in the U.S—could have the value of its trademark destroyed by the importation of foreign-purchased goods whose quality and contents are beyond the respondent's control; respondent retains strict control over the quality and contents of the foreign-made CPK dolls through its license agreements.

Abco mistakenly thought their chips were protected by NEC-USA's servicing and warranties." *NEC*, 810 F.2d at 1508.[8] Thus, although both cases involved products that apparently were not intended to be sold in the U.S. and which, although physically identical, differed in the services accompanying the products,[9] the two courts reached opposite results. The issue presented by these decisions is a classic conflict in the circuits which requires resolution by this Court.

It is also significant that, on the merits, the Second Circuit's interpretation of the Lanham Act is entirely without support. The highly specific language of Section 1114(a)(1) of the Lanham Act—which prohibits the use of ". . . any reproduction, counterfeit, copy, or colorable imitation of a registered trademark . . ."—does not, by its terms, encompass the sale of genuine goods manufactured by the trademark owner or its licensees. In short, trademark law does not prevent the resale of genuine goods bearing a true trademark even though the sale is made without the trademark owner's consent. *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983); *Diamond Supply Co. v. Prudential Paper Products Co.*, 589 F. Supp. 470, 475 (S.D.N.Y. 1984). "Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark law liability." *NEC*, 810 F.2d at 1509 (citing *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368-69 (1924)).[10]

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[8] The respondents in *NEC* disputed the district court's finding that the parallel imported computer chips differed from the authorized computer chips in service and warranty. However, the Ninth Circuit apparently found this issue irrelevant; the court of appeals reversed the district court's decision and, without disturbing the district court's finding of differences in warranty and services in the products, held that the sale of the genuine parallel imported computer chips could not constitute a trademark violation.

[9] The "adoption" process available with the CPK dolls should be viewed not as part of the product, but rather as a service that accompanies the product, like a warranty. The district court's finding that the "adoption process is an 'important element of the mystique of the [Cabbage Patch Kids] dolls' " is irrelevant. The current "warranty wars" between American automobile manufacturers demonstrate that warranties can substantially contribute to the popularity of a product.

[10] See note 7, *supra*, discussing exceptions to this principle on the special facts of the *Katzel* case.

The standard applied by the Second Circuit in this case is faulty. Whether actionable confusion exists which is protected by the trademark laws should not hinge on the trademark owner's intent as to the ultimate destination of goods sold on the international market. It would be impractical, if not impossible, for a purchaser in a commercial transaction to determine the trademark owner's "intent" in this respect. Furthermore, to base a trademark owner's cause of action upon whether "material" differences exist in products created by the trademark owner, or by a third party under the trademark owner's control, will give the trademark owner incentive to create such differences purposefully. Because Section 5 of the Lanham Act prohibits "related companies" from using a trademark "in such a manner as to deceive the public," 15 U.S.C. § 1055, trademark protection traditionally is granted only to owners who maintain the uniform quality of their trademarked products. *See Oberlin v. Marlin American Corp.*, 596 F.2d 1322, 1327 (7th Cir. 1979) (trademark owner must ensure uniform quality of product); *Huntington National Mattress Co. v. Celanese Corp.*, 201 F. Supp. 938, 945 (D.Md. 1962).

The Second Circuit's decision rests on a basic misunderstanding of the purpose of the Lanham Act. The Court has created a trademark remedy, where none exists, because of potentially disappointed consumers who encounter difficulty in completing the adoption process for dolls sold by petitioner. The trademark laws are designed to prevent confusion as to source, not to promote consumer satisfaction. Because respondent's licensee, Jesmar, is the true source of the goods in this case, the Lanham Act does not provide a remedy to respondents. Instead, if consumers have any remedy for the purchase of Jesmar-manufactured dolls with Spanish-language adoption papers, the remedy exists before the Federal Trade Commission or under state consumer protection laws. *See NEC*, 810 F.2d at 1510.

CONCLUSION

In view of the conflict between the circuits, the great significance of the issue to a substantial American industry and to American consumers, and the distortion by the court below of the purpose of the Lanham Act, the Coalition respectfully urges the Court to grant the petition for a writ of certiorari.

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ORIGINAL APPALACHIAN ARTWORKS, INC.,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF IN OPPOSITION OF RESPONDENT ORIGINAL APPALACHIAN ARTWORKS, INC.

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QUESTION PRESENTED

Whether the Lanham Act prohibits the sale in the United States of foreign-made goods bearing a trademark recognized by the American public to indicate materially different goods supplied by another based in the United States.

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF IN OPPOSITION OF RESPONDENT ORIGINAL APPALACHIAN ARTWORKS, INC.

Respondent Original Appalachian Artworks, Inc. respectfully submits that the Writ of Certiorari requested by Petitioner Granada Electronics, Inc. should be denied. The order and opinion below of the United States Court of Appeals for the Second Circuit does not conflict with any decision of another Federal Court of Appeals on the same matter, but merely applies long-standing principles of trademark law to the facts found by the trial court below.

I. STATEMENT OF THE CASE

Respondent Original Appalachian Artworks, Inc. (hereinafter "OAA") is engaged in the manufacture, sale and licensing of dolls and related items under its federally-registered trademark CABBAGE PATCH KIDS. OAA originated and continues to manufacture soft-sculpture dolls under the CABBAGE PATCH KIDS trademark. These dolls of OAA are completely hand-sewn in Georgia by OAA, and are marketed through "adoption centers"—primarily specialty stores and finer department stores. With each purchase of a CABBAGE PATCH KIDS doll manufactured by OAA, the purchaser receives a "birth certificate" and "adoption papers" which are filled out by the "parent" or owner of the doll, who is then returned a "birthday card" by OAA on the first anniversary of "adoption" or purchase of the doll. The CABBAGE PATCH KIDS dolls of OAA are, therefore, "adopted" by purchasers, and the district court below found this adoption process to be an important element of the mystique of the CABBAGE PATCH KIDS dolls which has substantially contributed to the enormous popularity and success of these dolls. (See district court's opinion reproduced at page A45 of the Petition)

OAA licenses others around the world to manufacture and distribute CABBAGE PATCH KIDS dolls. These licensed dolls, instead of being entirely hand-sewn from fabric as are the dolls of OAA, are mass-produced and have vinyl heads. In the United States, Coleco Industries, Inc. ("Coleco") sells these dolls under license from OAA. These Coleco CABBAGE PATCH KIDS dolls are packaged in boxes which prominently display the CAB-

BAGE PATCH KIDS trademark and are accompanied by "birth certificates" and "adoption papers" in the English language which also prominently display the CABBAGE PATCH KIDS trademark. The CABBAGE PATCH KIDS dolls sold in the United States by Coleco come complete with English language instructions directing purchasers how to complete the "adoption process" by writing the required information in the appropriate blank spaces on the "adoption papers". These instructions also direct purchasers to place the completed "adoption papers" in the accompanying pre-addressed envelopes and advise purchasers how to change the name of the "adopted" doll if the purchaser so desires.

These "adoption papers" are processed by "fulfillment houses" in the United States. These fulfillment houses are paid by Coleco on a per-piece basis. Once these fulfillment houses receive completed "adoption papers" from purchasers or recipients of CABBAGE PATCH KIDS dolls, they send the "adopting parents" suitable-for-framing "birth certificates" and on the one-year anniversary of "adoption" the fulfillment houses send the purchasers "birthday cards" for the dolls.

Although OAA has, or has had, at least 120 licensees for assorted CABBAGE PATCH KIDS products, the vinyl-headed version of the CABBAGE PATCH KIDS doll sold by Coleco is the centerpiece of OAA's licensing program. Coleco has achieved incredible success with its vinyl-headed version of the CABBAGE PATCH KIDS doll and had sold in excess of 37 million CABBAGE PATCH KIDS dolls at the time of trial. Coleco had also produced a number of television commercials which were

aired throughout the United States which feature the CABBAGE PATCH KIDS dolls and which highlight the "adoption" process. Coleco's advertising for the CABBAGE PATCH KIDS product line from 1983 through 1986 totalled 58 million dollars. As noted by the trial court below, due to Coleco's advertising expenditures and substantial sales, the CABBAGE PATCH KIDS trademark has become famous and associated with Coleco as the source for its vinyl-headed version of the CABBAGE PATCH KIDS doll and accompanying adoption papers in the United States. (See district court opinion reproduced at pages A52, A53 of the Petition)

OAA also licenses other companies located outside the United States to manufacture and sell vinyl-headed versions of the CABBAGE PATCH KIDS doll outside the United States only. One of those companies is Jesmar S.A. ("Jesmar") of Spain. Jesmar is not authorized to sell any CABBAGE PATCH KIDS dolls outside of its territory of Spain, Canary Islands, Andorra and Ceuta Melilla; nor is Jesmar authorized to sell any CABBAGE PATCH KIDS dolls to anyone who in turn would sell outside of Jesmar's licensed territory. (See district court opinion reproduced at pages A48, A49 of the Petition)

The CABBAGE PATCH KIDS dolls of Jesmar come in boxes substantially identical in appearance and with graphics nearly identical to those boxes which contain the CABBAGE PATCH KIDS dolls sold by Coleco in the United States. The Jesmar dolls are sold with "birth certificates" and "adoption papers" which prominently bear the trademark CABBAGE PATCH KIDS in English but are otherwise in the Spanish language. The instructions

for adopting the dolls and changing the name of the dolls by writing the required information in the blank spaces on the papers are also entirely in the Spanish language, and the mailing address to which the "adoption papers" are directed is in Spain.

OAA commenced suit against Petitioner Granada Electronics, Inc. (hereinafter "Granada") to halt Granada from continuing to import Jesmar CABBAGE PATCH KIDS dolls into the United States and from selling such imported dolls in the United States. The opinion issued by the trial court and affirmed by the Court of Appeals was premised upon the trial court's uncontested finding that the "adoption" of CABBAGE PATCH KIDS dolls in the United States has substantially contributed to the enormous popularity and success of such dolls. Further, the trial court found, and Petitioner does not contest, that the existence in the United States of Jesmar CABBAGE PATCH KIDS in boxes substantially identical to those sold in the United States by Coleco causes the public to confuse or mistake the Jesmar dolls for the dolls with English language papers consumers expect to be offered for sale in this country by Coleco. This confusion or mistake has misled and has caused considerable disappointment among consumers that has damaged the reputation of both OAA and Coleco as sources of high quality CABBAGE PATCH KIDS products. As specifically found by the trial court:

> Purchasers have come to expect that dolls sold in the United States bearing the trademark CABBAGE PATCH KIDS will include birth certificates and adoption papers in the English language which can be mailed to an addressee in the United States, who will process the adoption papers and return them to

> the "parent." Jesmar dolls imported into and sold in the United States under the trademark CABBAGE PATCH KIDS by Granada will likely cause confusion, mistake and deception on the part of the purchasing public because these dolls with Spanish language adoption papers and birth certificates are not the product those purchasers expect to receive when they purchase a CPK (CABBAGE PATCH KIDS) doll in the United States. Consumers are therefore being misled and disappointed and frequently hold OAA and/or Coleco responsible therefore. The sale of these non-conforming CPK dolls in the United States therefore has damaged and threatens to continue to damage the reputation of OAA and Coleco as sources of high quality CPK products. (See district court opinion reproduced at pages A54 and A55 of the Petition)

This finding of trial court was affirmed by the Court of Appeals when it noted:

> [T]he district court found that Jesmar's CABBAGE PATCH KIDS dolls with their Spanish-language birth certificates, adoption papers, and instructions are materially different from the Coleco dolls with English-language papers. The court also concluded, on the basis of numerous letters from parents and child doll owners or "parents," that the sale in the United States of the Spanish-language dolls with the prominent English-language trademark causes the public to confuse or mistake the Spanish dolls for the Coleco dolls that they expect to be for sale. (See circuit court opinion reproduced at page A12 of the Petition)

The decision of the Court of Appeals below was clearly premised on the factual finding that the American public is actually confused over the source of the Spanish dolls bearing the American CABBAGE PATCH KIDS trademark inasmuch as the American public is likely to believe that the licensor OAA is responsible for the non-

conforming Spanish dolls in the United States; or that the primary licensee Coleco is responsible for these non-conforming Spanish dolls. As noted by the Court of Appeals:

> [T]he present case is distinguishable from the above cases [cases authorizing the importation of identical goods from abroad bearing a federally registered trademark owned by a domestic source] because Jesmar's dolls were not intended to be sold in the United States and, most importantly, were materially different from the Coleco CABBAGE PATCH KIDS dolls sold in the United States. There is a very real difference in the product itself—the foreign-language adoption papers and birth certificate, coupled with the United States fulfillment houses' inability or unwillingness to process Jesmar's adoption papers or mail adoption certificates and birthday cards to Jesmar doll owners, and the concomitant inability of consumers to "adopt" the dolls. It is this difference that creates the confusion over the source of the product and results in a loss of OAA's and Coleco's good will. (See circuit court opinion reproduced at pages A18, A19 of the Petition)

The facts developed below clearly indicate that the present Petition does *not* involve a typical "gray market" case. The Spanish CABBAGE PATCH KIDS dolls have been determined to be materially different from the dolls consumers in the United States expect to receive under the CABBAGE PATCH KIDS trademark, and as a result consumers have actually been disappointed upon purchasing the Spanish dolls. This disappointment has been laid at the doorsteps of Coleco and OAA, and OAA has properly invoked the Lanham Act to protect its goodwill and that of its licensee.

It should be noted that Petitioner states on page 9 of its Petition that:

> [T]here is nothing in the record below which would indicate that the sale by Jesmar for distribution of the dolls in question outside of Spain was other than entirely in accordance with permission as provided in the contract between Schlaifer (OAA's licensing agent) and Jesmar.

This statement by Petitioner, however, is in direct contrast to the finding of the trial court which stated:

> Granada had no communications with agents of OAA, SNC (the licensing agent), or with Coleco regarding its importation of foreign-made CPK dolls into the United States and thus had no authorization from OAA, Coleco or SNC for such importation or sale. (See district court opinion reproduced at page A56 of the Petition)

Furthermore, the Court of Appeals affirmed this finding when it stated:

> Thus, even though the goods do bear OAA's trademark and were manufactured under license with OAA, they are not "genuine" goods because they differ from the Coleco dolls and were not authorized for sale in the United States. (See circuit court opinion reproduced at page A19 of the Petition)

II. SUMMARY OF ARGUMENT

The federal courts have consistently granted injunctions against the importation of foreign-produced goods bearing an American trademark when the owner of the trademark in the United States has developed a goodwill separate and distinct from that of the foreign producer of the goods; and have consistently refused to grant an in-

junction when the American owner of the trademark has not developed a goodwill separate and distinct from the goodwill of the foreign entity producing the goods. The circuits are not in conflict on this point, and the United States Court of Appeals for the Second Circuit affirmed the injunction below upon a finding that the American consumers had identified Coleco as the primary source in the United States for the vinyl-headed CABBAGE PATCH KIDS dolls, and thus the presence of the Spanish-made CABBAGE PATCH KIDS dolls of Jesmar bearing the CABBAGE PATCH KIDS trademark would likely confuse the American public into believing the Spanish dolls were products of Coleco, when they are not.

Additionally, the Court of Appeals affirmed the finding that the foreign-made CABBAGE PATCH KIDS dolls of Jesmar did not conform to the expectations of the American consumer for the product they would receive under the CABBAGE PATCH KIDS trademark, and the court affirmed the finding that the disappointment experienced by the American consumers in receiving a non-conforming product under the CABBAGE PATCH KIDS trademark damaged the goodwill of Respondent OAA and its primary U.S. licensee Coleco.

These findings are not contraverted by the Petitioner, and fully support the granting of the injunction below.

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III. ARGUMENT

A. The Circuit Courts Are Not In Conflict

The federal courts have historically enjoined the importation of goods manufactured abroad and bearing a trademark owned by a separate entity in the United States which developed its own goodwill in the trademark. *A. Bourjois & Co. v. Katzel,* 260 U.S. 689, 43 S.Ct. 244, 67 L.Ed. 464 (1923); *Model Rectifier Corp. v. Takachiho International, Inc.,* 221 U.S.P.Q. 502 (BNA) (9th Cir. 1983); *Premier Dental Products Co. v. Darby Dental Supply Co.,* 794 F.2d 850 (3rd Cir. 1986) *cert denied* 107 S.Ct. 436 (1986); *Osawa & Co. v. B & H Photo,* 589 F.Supp. 1163 (S.D.N.Y. 1984). Conversely, the federal courts have not been granting injunctions when the domestic owner of the trademark has not established a goodwill separate and distinct from the producer of the foreign goods. *NEC Electronics v. CAL Circuit Abco,* 810 F.2d 1506 (9th Cir. 1987); *Bell & Howell; Mamiya Company v. Masell Supply Co.,* 719 F.2d 42 (2nd Cir. 1983).

The variations of the gray market are numerous. As stated in *Olympus Corp. v. United States,* 792 F.2d 315, 320 (2nd Cir.) quoting from *Vivitar Corp. v. United States,* 761 F.2d 1552, 1570 n.24 (Fed.Cir. 1985):

> U.S. and foreign trademark rights may be owned by the same entity, by related companies, or by wholly separate companies; imported goods may be identical to or different from the parallel imports; the goods may be produced in the United States and different goods produced abroad; services and warranties may or may not be the same; foreign licensees may not be subject to U.S. control.

Certainly, the many variations in the gray market will lead to some decisions where the U.S. mark holder had a domestic goodwill which is distinct from the goodwill of the foreign producer of the goods; and some situations where the domestic mark holder does not have such isolable domestic goodwill. The circuits will, therefore, be expected to reach different results on differing facts without any dispute as to the underlying principles of trademark law to be applied.

Petitioner asserts there is a conflict in the circuits, and notes particularly *NEC Electronics v. CAL Circuit Abco, supra,* from the United States Court of Appeals for the Ninth Circuit. In *NEC Electronics,* the Ninth Circuit reversed the grant of an injunction and noted that the foreign manufacturer of the goods, NEC-Japan, is one of the world's largest manufacturers of computer chips, and the defendant CAL Circuit Abco had imported genuine computer chips manufactured by NEC-Japan in derogation of the exclusive license NEC-Japan had granted its wholly-owned subsidiary in the United States, NEC-USA. The parties had stipulated that the chips of the defendant are genuine NEC products, *Id.* 810 F.2d 1508. The court noted NEC-Japan and NEC-USA are commonly controlled and:

> [t]his country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with *nominal* title to its mark. (emphasis added) *Id.* 810 F.2d 1511.

The Ninth Circuit, therefore, found in *NEC Electronics* that the U.S. owner of the mark was not only a wholly owned and commonly controlled subsidiary of the foreign

producer of the goods, but the American subsidiary had only "nominal" title to its mark.

The importation of goods manufactured in Japan which were identical in all material respects to the goods being offered by the wholly-controlled U.S. subsidiary could not amount to a confusion of source of the type prohibited by the Lanham Act when the U.S. subsidiary had only "nominal" title to the mark and certainly had no isolable domestic goodwill.

To the contrary, however, the Ninth Circuit in *Model Rectifier Corp. v. Takachiho International,* 221 U.S.P.Q. 502 (BNA) (1983) affirmed the grant of an injunction barring importation of model automobile kits manufactured by Tamiya Plastic Model Corporation of Japan which had made Model Rectifier Corp. (referred to as MRC) the exclusive United States distributor for its radio-controlled model kits, and had assigned its rights to the United States trademark to MRC.

The defendant Takachiho International had imported model automobile kits manufactured by Tomiya Plastic Model Corporation in Japan, but the Ninth Circuit noted:

> MRC alleges that retail purchasers of Tomiya kits which were not imported by MRC have had problems with broken or missing parts. These purchasers have looked to MRC for replacement parts. Many of these purchasers mistakenly believe that the kits came from MRC. *Id.* 221 U.S.P.Q. 503.

The Ninth Circuit, therefore, affirmed the grant of an injunction when it found that the American purchasers believed that the exclusive American distributor and owner of the trademark is the source of the imported goods, and thus had developed its own goodwill.

The Ninth Circuit, therefore, is not in conflict with the Second Circuit, and based on *Model Rectifier* above, would likely reach the same conclusion as the United States Court of Appeals for the Second Circuit in enjoining the importation of foreign-made Spanish CABBAGE PATCH KIDS dolls which did not conform to the product actually sold in the United States by OAA's licensee Coleco, and when the American consumers look to OAA and Coleco as being responsible for the presence of these non-conforming goods in the United States.

Certainly, therefore, the statement of Petitioner that "the conflict between the circuit courts will effectively permit importation of the subject dolls in California, where they would be considered genuine, while condemning their importation in New York, where they would not" (page 20 of the Petition) does not conform with the decisions from the Ninth Circuit.

B. The Lanham Act Prohibits Not Only Passing Off But Also Prohibits Marketing Products With A Trademark In Any Manner To Confuse The Public

Trademarks are meant to protect members of the consuming public so that they may be assured, when they purchase products by relying on recognized trademarks, they get what they expect and pay for. The trademark laws preclude any use of a trademark in any manner which confuses, causes mistakes or deceives the public in any way, not merely use which causes confusion as to source of origin. However, it is noted that even if trademark infringement were to be limited to passing off, Granada would still be liable for trademark infringement. The public has most certainly been confused as to the source of

Jesmar CABBAGE PATCH KIDS dolls because they think such dolls originate with Coleco and the presence in the U.S. of the disappointing and non-conforming foreign dolls is the responsibility of OAA. These Jesmar dolls are being passed off as Coleco CABBAGE PATCH KIDS dolls, when they are not.

Granada asserts the products at issue are "genuine" and "authentic". However, the words "genuine" and "authentic" are not absolute and must be considered in the proper context. In the context of the United States market, CABBAGE PATCH KIDS dolls with Spanish birth certificates and adoption papers, are not "genuine". Indeed such dolls are materially different from the "genuine" English language dolls the American public expects from Coleco and OAA.

Granada's sales of Jesmar CABBAGE PATCH KIDS dolls authorized for Spain caused the American public to believe the Jesmar CABBAGE PATCH KIDS dolls are the CABBAGE PATCH KIDS dolls with English language papers that Coleco sells. Granada has passed off to the public its foreign dolls as the materially different CABBAGE PATCH KIDS dolls of Coleco.

The district court below found:

> Jesmar dolls imported into and sold in the United States under the trademark CABBAGE PATCH KIDS by Granada will likely cause confusion, mistake and deception on the part of the purchasing public because these dolls with Spanish language adoption

> papers are not the product those purchasers expect to receive when they purchase a CPK doll in the United States. Consumers are therefore being misled and disappointed and frequently *hold OAA and/or Coleco responsible therefore.* (emphasis added). (See, district court's opinion reproduced on pages A54, A55 of the Petition)

Clearly, the public has been misled into believing the Jesmar CABBAGE PATCH KIDS dolls are products of Coleco, when they are not. It should be noted that Granada has not disputed the fact that the public has considered the Jesmar CABBAGE PATCH KIDS dolls with foreign language adoption papers to be products of Coleco, when they are not.

Notwithstanding the above, Granada's understanding of the nature of trademarks and the law of trademarks is not correct. When § 1114 of Title 15 of the United States Code was amended in 1962 Congress evinced:

> [A] clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake or deception of *any kind,* not merely of purchasers nor simply as to source of origin. (emphasis added)

Syntex Laboratories, Inc. v. Norwich Pharmacal Co., 437 F.2d 566, 568 (2d Cir. 1971).

Further, Congress' intent in the Federal Trademark Act of 1946 went beyond mere protection against "passing off". As a report from the Senate Committee on Patents (which reported on the bill which was to become the Federal Trademark Act of 1946), stated:

> The purpose underlying any trademark statute is twofold . . . [T]o protect the public so that it may be confident that in purchasing a product bearing a par-

> ticular trademark which it favorably knows, it will get the product it looks for and wants to get. Secondly, where the owner of a trademark has spent energy, time and money in presenting to the public the product, he is protected in his investment. . . .

S.R. No. 1333, 79th Cong., 2d Sess. (1946) U.S. Code & Adm. News 1274.

The district court correctly found that consumers expect dolls sold under the CABBAGE PATCH KIDS trademark to include English language "birth certificates" and "adoption papers" which enable adoption of the dolls in the United States. This expectation by American consumers has been formed by extensive advertising, extensive promotions and substantial sales of the "adoptable" CABBAGE PATCH KIDS dolls.

As found below and as amply supported in the record, purchasers of foreign CABBAGE PATCH KIDS dolls with foreign language "birth certificates" and "adoption papers" often buy these foreign dolls believing they are the very same dolls they have seen and heard so much about. However, these consumers soon learn that they are *not* the same dolls. In fact, they are materially different from the product they thought they were buying as material accompanying the dolls is in Spanish, not English, including the directions whereby consumers are instructed how to properly complete the papers for adoption. Accordingly, many purchasers are unable to carry out one of the key features of the product, i.e., "adoption" of these dolls in the United States. The court below thus found that consumers were actually disappointed by receipt of these nonconforming Jesmar dolls.

Purchasers are likely to be and, in fact, have been confused and they further believe that OAA or Coleco are

responsible for the existence of the disappointing Jesmar dolls in the marketplace, when they are not. This confusion harms the reputations of both OAA and Coleco as sources of high quality CABBAGE PATCH KIDS products.

It has not been disputed that OAA owns the United States trademark for CABBAGE PATCH KIDS, that Granada used that mark in United States commerce without the consent of OAA, and that Granada's use of the CABBAGE PATCH KIDS trademark has caused confusion, mistake or deception on the part of American consumers.

Granada, however, argues that any rights OAA might have in its reputation and in its trademark must give way to Granada's desire to conduct business in the gray market. However, even if Granada could demonstrate that its right to do business in the gray market outweighed any harm it caused to OAA's or Coleco's reputation, Granada errs by regarding trademarks as mere property rights and nothing more. Granada ignores the very essence of trademarks: the right of the consuming public to be told the truth.

As noted by the district court, the purchasing public is an unnamed party in *every* action for trademark infringement. The district court found, as evidenced by the many letters and calls received by both OAA and Coleco, that the hypothetical average consumer has been governed by appearances and general impressions. However, this consumer has been disappointed by reliance on such appearances and impressions when he has obtained a CABBAGE PATCH KIDS doll which came in a box substantially

identical to the box of Coleco he has become familiar with, but whose contents were quite different from what he expected to obtain from a product sold under the CABBAGE PATCH KIDS trademark.

C. Enjoining Importation And Sale Of A Foreign Product Creates No Anomaly When That Foreign Product Is Materially Different From A Domestic Product Sold Under The Same Trademark

Granada urges that the products at issue are "genuine" and are thus their importation cannot be enjoined under the Lanham Act. However, the products Granada seeks to import and sell are not "genuine" or "authentic" CABBAGE PATCH KIDS dolls, but are in fact deceptively similar to to genuine CABBAGE PATCH KIDS dolls of Coleco expected by U.S. consumers.

Genuine as understood by the consumer in the United States means CABBAGE PATCH KIDS dolls with English language papers which enable adoption in the United States; just like the ones on television; just like the ones the little girl next door has; just like the ones everybody made such a fuss about. Taken in this context, the Jesmar CABBAGE PATCH KIDS dolls Granada seeks to import are *not* genuine or authentic and they *are* deceptively similar to the real thing.

Despite Granada's statements to the contrary, OAA has never authorized importation or sale of these dolls in the United States and has taken numerous steps to prevent such importation and sale.

Granada states that the Second Circuit had previously held that it would be an "anomaly" to approve an injunc-

tion against the importation and sale of a genuine product properly carrying the imprimatur of genuineness and authenticity as approved by the trademark owner, noting *DEP Corp. v. Interstate Cigar Co.*, 622 F.2d 621 (2d Cir. 1980). Granada apparently refers to footnote 1 of that opinion where the Court noted that it would indeed be anomalous to find a trademark infringement where the product sold by the defendant was genuine, not spurious and *no difference existed* between the product sold by plaintiff and defendant. *Id.* at 622 n.1. Clearly, that is not the situation the court was faced with below.

It is beyond dispute that the CABBAGE PATCH KIDS dolls Granada seeks to import and sell are materially different from those that American consumers are familiar with and expect to be offered for sale in the United States under the CABBAGE PATCH KIDS trademark. Indeed, the district court's injunction was premised on the mistake, disappointment and confusion that the difference between these products has caused the American public.

Petitioner asserts that there can be no injunction when the CABBAGE PATCH KIDS dolls imported from Spain are genuine in that the trademark owner OAA authorized the use of the CABBAGE PATCH KIDS trademark for these dolls, even though such authorization was limited essentially to Spain. However, in the cases relied on by the Petitioner, the trademark owner authorized the mark to be applied to the goods with the intention that the goods be sold in the United States. Accordingly, in the cases relied upon by the Petitioner, the trademark was applied to goods authorized for the U.S. market, and in that respect they were genuine.

Sasson Jeans, Inc. v. Sasson Jeans, L.A., Inc., 632 F.Supp. 1525 (S.D.N.Y. 1986), for example, involved genuine Sasson jeans whose manufacture, affixation of trademark and sale in the United States was expressly authorized by plaintiff. *Id.* at 126-27. As the goods were genuine, the Court expressly held that no confusion could exist.

In *Monte Carlo Shirt Co. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983), the shirts plaintiff complained of were genuine shirts plaintiff had manufactured according to its specifications for sale in the United States. *Id.* at 1055. Plaintiff then refused delivery of those shirts as they arrived too late for plaintiff to sell as planned. *Id.* The Court correctly held in *Monte Carlo* that no confusion could exist and denied the requested injunction.

The above cases stand in sharp contrast to the present situation where OAA has *never* approved the Jesmar dolls for sale in the United States. Unlike the above cases, OAA did not just have a change of heart about the sale of goods in the United States which conformed in every way to consumer expectation. OAA has always sought to keep these non-conforming dolls far from where they could cause any confusion and has providesd for their exclusion by contract.

Granada also relies on *Alfred Dunhill Ltd. v. Interstate Cigar Co., Inc.*, 499 F.2d 232 (2d Cir. 1974). In *Alfred Dunhill,* the plaintiff did have the opportunity to prevent a sale of deficient goods bearing its trademark in the United States. However, plaintiff made an economic decision to recover more money from its insurer by letting damaged goods be sold as salvage under its trademark in

the United States. *Id.* at 234. After sale of the damaged goods commenced, plaintiff sought to have sales stopped.

However, as noted by the Court in *Alfred Dunhill*, plaintiff was in the best position to solve the problem at the beginning, but chose to recover a larger insurance settlement by allowing the goods to be sold as salvage in the United States. *Id.* at 238. The court refused to let the plaintiff prevail when it had authorized the sale of the deficient goods in the United States in the first instance.

Conversely, OAA has never given approval for materially different Jesmar dolls to be sold in the United States. Clearly, the *Dunhill* case does not stand for the proposition that Granada has the right to import products materially different from products sold in the United States under the same trademark when OAA never gave any permission for those products to enter the United States.

D. OAA Never Authorized Importation Of Jesmar Cabbage Patch Kids Dolls Into The United States

Petitioner states that OAA, by virtue of its recordation with Customs, expressly authorized importation of Jesmar CABBAGE PATCH KIDS dolls. Granada is incorrectly equating a document filed with Customs to inform Customs of approval by OAA for Jesmar to sell CABBAGE PATCH KIDS dolls in Spain as an express authorization for those dolls to enter the United States.

OAA received trademark registration No. 1,298,970 from the United States Patent and Trademark Office on October 2, 1984 for the trademark CABBAGE PATCH

KIDS for dolls. Following receipt of the above registration, OAA recorded its CABBAGE PATCH KIDS trademark with the United States Customs Service to prevent counterfeit products bearing the CABBAGE PATCH KIDS trademark from entering the United States. To achieve recordation, OAA was directed by the Customs Service regulations (19 C.F.R. §§ 133.2(c), 133.21-24 (1985)) to include "[t]he name and principal business address of each foreign person of business entity authorized or licensed to use the trademark and a statement as to the use authorized". As per 19 C.F.R. §§ 133.2(c), 133.21-24, OAA listed Jesmar along with numerous other companies on its application for Customs recordation. Jesmar was listed as it was authorized in Spain to make products under license for OAA.

As a result, the Customs service directed a letter to its officials permitting various CABBAGE PATCH KIDS items, including Jesmar CABBAGE PATCH KIDS dolls, to pass through Customs, as Customs regulations do not provide for refusing importation of goods which are authorized by the recording party in *any* country. However, despite Customs' regulations which do not provide for stopping importation of foreign goods *sua sponte*, this acts as no bar to private suits by trademark holders. *Olympus Corp. v. United States*, 792 F.2d 315, 320 (2nd Cir. 1986); *Vivitar Corp. v. United States*, 761 F.2d 1552, 1570 (Fed. Cir. 1985), *cert. denied*, 88 L.Ed. 2d 769, 106 S. Ct. 791, 54 U.S.L.U. 3460 (1986).

Accordingly, Granada's reliance on OAA's filing with Customs which lists Jesmar in no way acted as authorization for importation of Jesmar CABBAGE PATCH KIDS dolls by OAA.

Granada also notes that, in any event, it should escape the injunction as Granada mistakenly relied upon OAA's Customs recordation, had no notice of OAA's objections, and did not know there would be any problems with importing the dolls. Granada's basic premise is that it cannot be held accountable because it was not culpable and had no bad intent.

The grant of injunctive relief depends upon whether such relief is necessary to protect against future violations. Granada has made no secret as of its desire to import further Jesmar dolls and will presumably do so in the absence of the injunction. Clearly, the lower court's injunction is necessary to prevent such violations. *Menendez v. Sachs & Co.*, 485 F.2d 1355, 1375 (2nd Cir. 1973), *rev'd on other grounds, Alfred Dunhill of London, Inc. v. Republic of Cuba,* 425 U.S. 682, 48 L.Ed.2d 301, 96 S.Ct. 1854 (1976). Granada may not escape the forward-looking injunction by arguing ignorance in the past.

Similarly, it is an axiom of trademark law that innocent infringement is not a defense to an action for trademark infringement. 3A R. Callman and L. Altman, LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES, § 20.49 at 289 (4th ed. 1983). Granada cannot escape the lower court's finding of trademark infringement based on its asserted lack of intent to infringe.

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IV. CONCLUSION

For the reasons set forth above, the Petition for Certiorari should be denied.

Respectfully submitted,

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